

JPRS-EER-90-112  
2 AUGUST 1990



FOREIGN  
BROADCAST  
INFORMATION  
SERVICE

# ***JPRS Report***

## **East Europe**

20000128 143

DTIC QUALITY INSPECTED 2

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

**DISTRIBUTION STATEMENT A**  
Approved for Public Release  
Distribution Unlimited

DTIC QUALITY INSPECTED 1

# East Europe

JPRS-EER-90-112

## CONTENTS

2 August 1990

### POLITICAL

#### INTRABLOC

East European Situation Analyzed [Budapest MAGYAR HIRLAP 18 Jun]	1
Tokes Appeals to Romanian Government [Budapest NEPSZABADSAG 27 Jun]	2

#### CZECHOSLOVAKIA

Polls Indicate Growing Support for Reforms [LIDOVE NOVINY 25 Jun]	2
Czech Justice Minister on Law of Rehabilitation [LIDOVE NOVINY 25 Jun]	3

#### HUNGARY

MSZP No Longer Owns FIGYELO [FIGYELO 21 Jun]	4
Horn on Post-Warsaw Pact Security Concerns, House Proceedings [NEPSZABADSAG 27 Jun]	4
Former Deputy Minister of Interior To Stay on as National Police Chief [TALLOZO 1 Jun]	5

#### POLAND

Silesians Want Environmental Aid Spent on Cleanup Not Research [TRYBUNA ROBOTNICZA 19 Jun]	6
Katowice Voivode Outlines Administrative Profile, Reorganization [TRYBUNA ROBOTNICZA 16-17 Jun]	7

#### YUGOSLAVIA

Tudjman 1989 Remarks on Jasenovac, Milosevic Published [INTERVJU 8 Jun]	8
New Croatian Premier Mesic Interviewed [London NOVA HRVATSKA 3 Jun]	11

### MILITARY

#### GERMAN DEMOCRATIC REPUBLIC

Eppelmann's NVA Leadership Seen at Odds With Unification	15
Command 'Status Quo' Maintained [RHEINISCHER MERKUR/CHRIST UND WELT 8 Jun]	15
Equitable Force Cuts Endangered [DIE WELT 19 Jun]	16
Disorganization, Low Morale Evident in NVA [West Berlin DER TAGESSPIEGEL 7 Jun]	17

#### HUNGARY

Defense Ministry Spokesman Interviewed on Arms Trade [MAGYAR HIRLAP 20 Jun]	19
Air Defense Radio Locators' Situation Discussed [MAGYAR HIRLAP 25 Jun]	21

### ECONOMIC

#### CZECHOSLOVAKIA

Battle Against Inflation Viewed [HOSPODARSKE NOVINY 27 Jun]	23
Economic Reform Program Risks Discussed [HOSPODARSKE NOVINY 27 Jun]	25
Slovaks Urged To Heed Czech Policies [NARODNA OBRODA 7 Jul]	27

Women Not Represented in New Slovak Government <i>[NARODNA OBRODA 7 Jul]</i> .....	28
Finding Balance Between Market Economy, Unemployment Viewed <i>[HOSPODARSKE NOVINY 13 Jun]</i> .....	29
U.S. Consultant Zeleny Views Agriculture, Market Economy <i>[ZEMEDELSKE NOVINY 21 Jun]</i> .....	30
Land Taxes Considered Excessive <i>[HOSPODARSKE NOVINY 21 Jun]</i> .....	33

## HUNGARY

Growing Concern About Overdrafts, Interenterprise Indebtedness .....	34
Drastic Increase, No Accurate Figures <i>[FIGYELO 17 May]</i> .....	34
Multipronged Remedy Recommended <i>[FIGYELO 17 May]</i> .....	34
Bank Data on Debtor Enterprises <i>[FIGYELO 24 May]</i> .....	36
GM-Suzuki Manufacturing Agreements, Managements Compared <i>[FIGYELO 24 May]</i> .....	36
Definition for, Status of 'Standing in Line' Provided <i>[MAGYARORSZAG 22 Jun]</i> .....	42

## SOCIAL

### HUNGARY

Refugee Affairs: Plight, Difficulties Described <i>[MAGYARORSZAG 25 May]</i> .....	43
--	----

## INTRABLOC

### East European Situation Analyzed

25000754A Budapest MAGYAR HIRLAP in Hungarian  
18 Jun 90 p 5

[Editorial by Csaba Poor: "East Europe"]

[Text] The expression "impossible" is slowly disappearing from the political vocabulary of East Europe. This is at least what a Western analyst opined when dissecting the situation of the region. Indeed, it is true that by now everything is conceivable, anything can happen in the the countries of the once unshakable socialist system—both good and bad—but the reflexes and political inventions of reluctance, of wasting time, still prevail in quite a few countries of East Europe.

The path followed by countries which for long decades followed the track cut by the Soviet Union has split at this time. All of these countries have Europe as their declared destination, but it seems that some countries want to—are forced to—approach Europe with smaller or larger detours. By now we may talk not only about a divided Europe, but also about a divided East Europe, about fading, shifting borders. Not only because it is only a matter of weeks or months before the GDR, once regarded as one of the most solid bastions of socialism, will merge with the FRG, but also because in the end, parliamentary elections conducted in the East bloc countries catalyzed the process of change everywhere, but with a different force and with different methods.

Poland, the CSFR, Hungary, Slovenia and Croatia within Yugoslavia, and the Baltic Soviet republics have voted in their own way for a change in the system. On the other hand, Romania, Bulgaria, and the Soviet Union as a world power are experimenting with reforming socialism, irrespective of whether this is expressed or implied.

We could even say that the borders of Europe, in a political sense, are now at Brest, Csap, and Biharkeresztes, but fortunately, at this time many more ties exist linking East European countries which chose radical change on the one hand, and others which follow slow reform processes on the other, than [there are wedges that] separate them. In other words, the millions of connecting threads cannot, and must not, be cut in a matter of moments; still, they may be useful to the countries involved. The ultimate solution can be only the liquidation of Europe's division, and not the transfer of the dividing line.

For long years, Poland and Hungary have played sort of a liaison role between East and West, and at present, together with the CSFR, and to a certain extent—due to its peculiar situation—with the GDR, these countries may point out directions and serve as examples. Not because we believe that the road traveled by these countries is the sole path which leads to salvation. It is too early to make categorical statements. The states

which chose Western style democracy, and the forces which gained power in those countries, must still withstand the test of time, but the numerous similar features in the history of transformation suggest at the moment that supposedly the fastest, safest solution may be obtained by way of the methods applied by these countries.

In the central and western regions of East Europe a recognition guided a decisive majority of political forces. This recognition pertains to the facts that socialism went bankrupt, that the system cannot be renewed because of its fundamental mistakes and distortions, and that, therefore, instead of searching for a third path, it is necessary and worthwhile to follow the example of democracy that has already proven itself in the West. In these countries everywhere there happened to be a grouping, a collective organization capable of uniting part of the opposition forces based on a denial of Stalinism, which then was able to take power after gaining the confidence of a majority of voters. Quite naturally, in order to accomplish this it was also necessary for the governing communist parties to recognize their own crises, and to exchange dictatorial direction for more civilized methods, and the tough core of the party chiefs with more flexible, reform-minded politicians. On the other hand, the fact that their power could be short-lived depended mostly upon the given countries' geopolitical, economic, and domestic political situations.

In the final analysis—hopefully—the political processes that can be observed in Bucharest, Sofia, and Moscow point in a similar direction. But the transitional period has proven to be more durable in those areas than in Central East Europe. Romania has not yet been able to recover from the shock of Ceausescu's decades-old rule of terror, the opposition has not had enough time to gain strength, it remained divided, and let's admit, it did not even rush to take power. That is, after the elections the government of the Front has two years left to show some results before new elections are held, and for all practical purposes, it has no chance whatsoever of doing so in the prevailing catastrophic economic situation. Most recent events indicate that to top things off, Iliescu's people are pulling the rug out from under themselves. The situation is similar in Bulgaria. Although in that country there is a seemingly rather fragile opposition alliance, there the economy is also in ruins. Shoring up the economy in a year and a half while the constitution was framed was hardly possible. Thus it is more comfortable to preserve the opposition role and to wait for the soon to come, new test of strength. In this contest the opponents of the successors of communists will start out with a better chance.

Most changes depend on the Soviet Union, of course. The changes will be most painful in that country. This is true in part because, due to historical traditions, this is the place where the opposition has the hardest job of getting on its feet, while on the other hand, hasty actions

can easily have catastrophic consequences—a conservative coup, a military takeover, could easily seal that country's fate. It is a virtual certainty that a radical change—like the ones that were implemented in the smaller states of East Europe—is inconceivable in the Soviet Union within its present state borders. It seems that the disintegration process—and let's add here: the healthy disintegration process—catalyzed by the Baltic member republics cannot be stopped, but it requires extremely cautious treatment, limitless patience. The Soviet Union will be one of the last among the countries embarking on the radical path of democratic transformation, and it is likely that in order to accomplish this a new generation of politicians must emerge. And they will have to prove to the new political forces leading the East European countries—and which are still regarded somewhat as an experimentation laboratory—that they are capable of effective governance.

### Tokes Appeals to Romanian Government

25000753C Budapest NEPSZABADSAG in Hungarian  
27 Jun 90 p 3

[MTI [Hungarian Telegraph Agency] report: "Appeal by Laszlo Tokes; Hungarians in Romania Are Regarded as Public Enemies of Society"]

[Text] Nagyvarad [Oradea] Reformed Church Bishop Laszlo Tokes appealed to the Romanian Government and to political forces on Tuesday, requesting that they take an unequivocal position concerning anti-Hungarian sentiments which prevail in the country, and which are reminiscent of anti-Semitism, and that they do everything in the interest of establishing a true democracy whose blessings may be shared by the people of the entire country, without exception.

In his appeal Tokes urged cooperation among democratic-minded Romanians and the Romanian churches against hatred and divergence. "Let us not retreat in the face of provocations and intimidation; let us act together against antidemocratic forces that incite adversity and violence," he wrote.

The document serves as a reminder of the fact that Hungarians in Romania supported the cause of revolutionary changes with their hearts and souls from the outset, just to be disappointed in recent months. The promising process of national reconciliation came to an end with the haunting return of the past. The enemies of democracy incited hatred, and with a series of shameful manipulations declared that Hungarians are the public enemies of society.

\*\*\*

In a separate proclamation Tokes recalls the victims of terror against nationalities: Erno Ujvarossy killed in September 1989, and Arpad Toszo, who was recently severely wounded in Temesvar [Timisoara], under conditions which have not been clarified. (Toszo is being

cared for in Hungary; information received by NEPSZ-ABADSAG late Tuesday suggests the likelihood that he fell victim to a group of terrorists.)

### CZECHOSLOVAKIA

#### Polls Indicate Growing Support for Reforms

90CH0266B Prague LIDOVE NOVINY in Czech  
25 Jun 90 p 4

[Article by Marek Boguszak and Vladimir Rak, based on the research done by the Group for Independent Social Analysis 'Czechoslovakia—May 1990: "Eye to Eye With Difficulties"]

[Text] Some promise the nation that prosperity can be attained without great sacrifices or negative impacts on citizens. Others say that it is impossible without sacrifices, increased effort, and investment in the future. We are not competent to judge which is closer to the truth. But our neighbors' example seems to point to the second alternative, and believing that we are so brilliant and exceptional that we will not have to face this could be a suicidal illusion. Anyway, the majority of people do not really believe this illusion. That is probably why the election programs that attempted to "corner the market" and, so to speak, promised the moon and the stars, did not do well.

An increasing number of people are realizing the unpleasant fact that we are in bad shape and that difficult times are ahead. From the point of view of beginning the reform, it is encouraging that the willingness of the public to economize and to accept the impact of the reforms is relatively high and, what is particularly significant, it has increased sharply since January. In January, 42 percent of the citizens chose the harder, faster alternative with a perceptible drop in the standard of living, in May this was 58 percent. In order to make sure the reform succeeds, 49 percent of the citizens are willing to accept a 50 percent price increase on basic necessities, 44 percent would come to terms with the loss of their present job (however, only 12 percent would be willing to accept long-term loss of employment), and 56 percent would agree with the introduction of market-determined rents.

The environment is a separate matter altogether. Three-fourths of the citizens disagree with postponing any attempts to improve the disastrous situation, even if it were in the interest of the economic reform to do so. The government's decision to solve this problem quickly, even if it means temporary economic losses, seems to be the only option.

Therefore, there is plenty of willingness, and the necessary steps of the reform, such as price correction, retraining, etc., will be supported by a considerable portion of the public. Yet it is apparent that there are conflicting attitudes among the public. The amount considered to be minimum income makes up 83 percent

of their present income. This means that, despite the relatively high willingness to cut down expenses, the total drop in the standard of living, according to the present conceptions of the people, should certainly not exceed 20 percent.

Fear of the future and a drop in the standard of living are the main factors limiting the willingness of a number of citizens to agree to cut down expenses. These people also project their opinions into political attitudes and are dissatisfied with the political development. More than others, they are inclined to retain their own standard of living through strikes, even though their material and financial situation is not worse than that of others. In other words, some of the citizens continue short-sightedly to believe that it is more important to keep their attained standard of living and security come what may—even if the whole country were to go bankrupt—than to lead the whole country to productivity and prosperity through sacrifices.

Apart from the willingness to tighten their belts, the willingness and readiness to realize basic changes in relation to their own work will be of key importance. Most people realize this, too. Merely 15 percent believe that what they will attain will depend on luck. Only 6 percent rely on the "right" connections or political involvement. Eight out of ten citizens know that their standard of living will depend on job assignment, results, and their own imaginativeness and creativity. The catch is in the fact that the majority feel that the circumstances at this time would not allow them fully to utilize their work: over 70 percent of the citizens say that they could work harder and provide higher quality, but that there is no sense in it at this time. This corresponds with the fact that the number of people who, to improve their own working and living prospects, intended to change their job, work hard, or strive to attain top work standards, has dropped since January.

There is no doubt that the true information on the state of our country helped to make the willingness to economize grow. However, the success of the basic changes will depend just as much on whether the majority of people will actively start to create and seek new opportunities, will succeed in using them with increased competence, as well as on job assignments, and the willingness to invest. In addition to this, conditions must be created to assure those who are active that what they are doing is the best for them and for the whole country in the long term. However, this is not quite the way it is right now.

**Czech Justice Minister on Law of Rehabilitation**  
90CH0266A Prague LIDOVE NOVINY in Czech  
25 Jun 90 pp 1, 8

[Interview with Dagmar Buresova, minister of justice, by Milan Vybulka; place and date not given: "The Judicial System Before Rehabilitation"—first two paragraphs are LIDOVE NOVINY introduction]

[Text] Seventeen hundred years ago, the noted Roman lawyer Ulpianus committed his contemporaries and the judges of the following millennia with these words: Justice is the consistent and unceasing will that grants everyone what is his.

If this will could not be asserted during some periods of the last 42 years—because it was sometimes totally suspended and at other times merely weakened by political power—then a period of correcting mistakes and perpetrating wrongs must now come about. In December 1989 Dagmar Buresova, Dr. of Law, the first woman to be justice minister of the CR [Czech Republic] in the history of Czechoslovakia, took over the Department of Justice.

[Vybulka] Minister Buresova, in a few days (1 July 1990), the law on rehabilitation through the courts will go into effect. Can you tell us how many cases will be involved in the rehabilitation, and how the judicial system has been prepared for it?

[Buresova] According to our estimates, the Law on Rehabilitation in the old historical countries, i.e., in the CR, will apply to 150,000 persons. Naturally, the judicial system is being prepared for this. Specialized senates are being established in the Okres and Kraj courts, selected judges have undergone special training, and we have also formed a special rehabilitation department at the Ministry. But some problems remain. We have a great shortage of judges, and we would need at least 200 more to deal with the rehabilitations. There are also problems with the fact that the rehabilitation will be judged in court. Most of the courts occupy truly undignified surroundings. In Prague 8 we are under a demolition order, the court must be vacated by 1 September of this year. Yet the buildings we have acquired, with one single exception, are unusable.

[Vybulka] Rehabilitation also means an increase in demands on the administration, has it been reinforced?

[Buresova] We are also trying to reinforce the professional sector of the courts, but we are facing major obstacles, because the pay is so low. Executive and other qualified individuals often leave for better pay in enterprises, to be attorneys, etc. But we are in the process of negotiating higher salaries.

[Vybulka] A sign in the corridor of the Obvod court in Prague announces: Death to the Judges! It is obvious that decades of the past regime branded the prestige of judges in society.

[Buresova] The vast majority of judges did not permit the totalitarian power to influence them, and the criteria they used to pass decisions continued to be the law and their own conscience. I would like to mention one of them, J. Rubes, Dr. of Law, who passed about 25,000 sentences and never wavered. Thanks to such judges, the reconstruction of the courts can be implemented within a relatively short time. Naturally, a few individuals were found who betrayed their juridical duties, but those

judges are leaving, in fact some have already left. With their departure, we have destroyed the old structures, and therefore I believe that now society should trust the new, restored judicial system.

[Vybunka] Were screenings implemented within the framework of restructuring the body of judges, and what were the results?

[Buresova] Back in February, after long deliberation, I asked for screenings. I know that they were carried out, and I requested the results, but so far I have not received them. During the Thursday meeting, the Federal Government decided not to continue with the screenings. In my opinion, screenings are essential to complete the reconstruction of the body of judges, because only people with an impeccable moral record should work in the judicial system. As far as I know, only a negligible number of agents was found. This, in itself, could increase the prestige of the judges.

[Vybunka] We heard that the Prague courts are annoyed at an article in VECERNI PRAHA by a judge from the Municipal Court in Prague, Dr. Istvanek, and that some of them are prepared to go on strike from 28 June?

[Buresova] In my opinion, a strike to demonstrate disagreement should not be used by certain professions, and I include the legal profession among them. On the other hand, I believe that Dr. Istvanek merely expressed his own, personal opinion, and not the opinion of the whole judges union. The meeting of the judges of the Municipal Court in Prague certainly distanced itself from his opinion. I also feel that the appeal for the public to point out cases of corruption and professional incompetence of judges is improper. Because it gives the impression that corruption flourished in the judicial system. Yet during the last 20 years, only two such cases were discovered. Both offenders received stiff unconditional sentences. The professional competence of judges must then be evaluated primarily by superior courts, possibly the Supreme Court. In addition, the Ministry of Justice can contribute to correcting judges' decision making by submitting exceptional corrective measures. I also do not believe that Dr. Istvanek's article shows an understanding of the difficult situation in which the courts are, or sensitivity to and fellowship with the other judges.

## HUNGARY

### MSZP No Longer Owns FIGYELO

25000754B Budapest FIGYELO in Hungarian  
21 Jun 90 p 1

[Unattributed article: "FIGYELO: New Legal Status"]

[Text] Government spokesman Balazs Laszlo has announced that the government has accepted the fact that the Hungarian Socialist Party [MSZP] has surrendered its founding and management rights regarding the Newspaper Publishing Enterprise, in favor of the Hungarian state. Simultaneously, the government has placed

the 100-percent state-owned enterprise under state administrative supervision. The minister of culture and public education was given the authority to exercise this supervision.

Since FIGYELO is published by the Newspaper Publishing Enterprise we thought that FIGYELO's legal situation that has evolved in the wake of this government decision should be clarified. In response to our question, Botond Bercsenyi, chief division director at the office of the prime minister, said that as a result of the government determination all of FIGYELO's rights as a founder were transferred to the state, which is now the exclusive owner of the newspaper. Insofar as FIGYELO may want to transfer the newspaper to the ownership of a business organization to be established—and FIGYELO has indicated such an intention in the past—approval of the related agreement is within the authority of the minister of culture and public education—with the inclusion of the State Property Agency, if necessary.

### Horn on Post-Warsaw Pact Security Concerns, House Proceedings

25000753B Budapest NEPSZABADSAG in Hungarian  
27 Jun 90 p 4

[Interview with Gyula Horn, former foreign minister and current chairman of the National Assembly Committee on Foreign Affairs, by M. G.; place and date not given: "Gyula Horn: Guarantees From the West"]

[Text] In his speech delivered in the course of Tuesday's debate, Gyula Horn made reference to the fact that our neighbors, the current member states of the Warsaw Pact, hold different views regarding the future of the Warsaw Pact. As a matter of an old reflex, the possible return of the Little Entente always occurs to people. We asked the chairman of the Hungarian Socialist Party [MSZP]: Is it possible that our departure from the Warsaw Pact could create a coalition with a possible anti-Hungarian edge?

[Horn] I do not regard this as a serious threat. If I consider the fact that, without exception, each member state has confirmed its intent to accelerate integration with West Europe, that they want to take part in the organizations of the integration, i.e. that they are turning toward West Europe, I do not believe that these states would establish new relationships which would represent any kind of threat to Hungary.

[M.G.] And yet, you thought it was important to caution that Hungary must orientate itself toward the European security system. Do you mean by this statement that we should be joining NATO?

[Horn] I continue to maintain in an unchanged form what I said earlier, i.e. that a collective defense and security system should be established in the framework of the Helsinki process. Because it is of no help to have the UN, its organizations, or agreements, and to have the requirements of the Helsinki Final Accord—these do not

guarantee the security of Hungary. I would like to see and to achieve a system in which all West European states that are important to us agree that they would support Hungary in the event that Hungary's security and territorial integrity are threatened. This is what we are talking about. The forms, means, and agreements needed for this must be established.

[M.G.] Your speech also had a tormented moment, essentially, you were called to order, and later you were even booed by your fellow representatives.

[Horn] That's what happened. Mr. Gyorgy Szabad asked the representatives several times, virtually at every session, not to disturb the workings [of Parliament] with remarks prior to dealing with the agenda items. I did not want to speak two or three times, and I wanted to express my opinion concerning the workings of the National Assembly.

[M.G.] Indeed, the truly vital economic matters, the issues involving the standard of living, are hardly placed on the agenda of the House.

[Horn] This is my primary concern. There is still a certain vacuum in the governing of the country.

By now not only weeks, but months are passing. We must get to work. I may be too sensitive, but I am unable to tolerate the style that is beginning to prevail in Parliament. That personalized, offending, offensive style. Considering my stature I am prepared to reach any compromise. But I was totally enraged by what happened here yesterday, by what the leaders of the Alliance of Free Democrats [SZDSZ] faction accomplished. The last time I heard such unfair, extremist attacks was during the elections; one could say that these statements used outlandish language.

#### **Former Deputy Minister of Interior To Stay on as National Police Chief**

90CH0196A Budapest TALLOZO in Hungarian  
1 Jun 90 p 1034

[Article by Sandor Revesz, reprinted from BESZELÓ, 26 May 1990: "Are We Getting the Shaft?"]

[Text] When the Committee on Self-Government met, the deputies subjected Balazs Horvath, the nominee for the post of minister of internal affairs, to a thorough questioning. Ferenc Koszeg asked him what reason the minister-to-be had for retaining Andras Turos, deputy minister [of internal affairs] and chief of the national police, as the professional deputy of the future civilian chief of police, that is, the nation's highest ranking professional policeman.

The nominee said that the problem of selecting the personnel to be in charge of the police caused him many sleepless nights, and the decision was not an easy one to make. According to his information, Dr. Andras Turos is an excellent professional, and as the civilian police

chief's deputy he will be limited to implementing policies. It should also be kept in mind that members of the profession are not likely to accept anyone as top policeman. The professional prestige of Dr. Andras Turos is beyond reproach. "We are in a compelling situation, and we cannot replace every office holder in the country." Dr. Balazs Horvath said that he had read the BESZELÓ article about Andras Turos (Ottilia Solt: "Confession" 9 February 1990), but he feels that Andras Turos did not become so deeply involved in state security affairs that this would preclude his employment in other high positions.

The nominee's answers to the questions posed by Ferenc Koszeg were cool, clear, and certainly worthy of consideration. There was only one thing missing: We did not find out how the future head of Internal Affairs feels about the intensive anti-Gypsy activities of this extremely capable police chief.

Anyone who read (if nothing else) the above-mentioned BESZELÓ article (as Dr. Balazs Horvath has), knows that less than two years ago the same major general, who was the police chief of Borsod County at the time, organized and openly defended collective police action aimed at harassing Gypsies, patronized plans for segregating Gypsies and placing them in ghettos, and stated to the viewers of local television that young Gypsies unsuitable for higher education can look forward to "nothing but joblessness, loitering, and a life of crime." In the same statement he equated assimilation with fitting into society. "In my opinion, we have to talk about Gypsy crimes, even if some people protest," said Dr. Turos, about a year before the term "Gypsy crimes" was removed from the police vocabulary as a discriminating expression, accompanied by frequent, though vague, apologies. In spring 1989 he fed the anti-Gypsy mood by asserting in the newspapers of Borsod County that in one year the proportion of Gypsies among perpetrators of crimes has more than doubled.

The writer of these lines (who is expressing only a personal opinion) is not particularly interested in how people "pay" for their past activities, and when it comes to personal matters he favors an understanding and pragmatic approach rather than a merciless one. I am not upset upon hearing that "a person like this" retains his leadership position and receives a high salary. All in all, I am not interested in the fate of Dr. Andras Turos as an individual. Unfortunately, the issue involves much more: Unless our society, heavily infected by anti-Gypsy attitudes, receives definite signals from the new government that the country will be protected from ethnic and nationality conflicts, and the prohibition of anti-minority discrimination will be most decisively and consistently enforced, no one will be able to defend the half a million Gypsies living in our country during the coming years or months, the period of worsening crisis and squalor. This is particularly important when it comes to the police as the branch of public service that is most heavily infected with anti-Gypsy attitudes.

The "Gypsy branch" of the police has been eliminated, and the person who used to be in charge of it now works in the "[pick]pocket section," which means that unrestrained anti-Gypsy incitement now emanates from there, (see, for example, the last Sunday morning broadcast of Studio Twenty). Throughout the country, policemen continue to harass and humiliate Gypsies in the same style they used before, as if the new rules for checking identification papers did not exist. Just two weeks ago, the head of the Kazincbarcika branch of the Phralipe Independent Gypsy Association was called a "dumb Gypsy" by a policeman who was checking his identification papers in Miskolc.

We are at a turning point, and if policemen receive negative or unclear signals now, we could expect some very dark events to take place in the future. In such a situation, transferring the leader of Borsod County's anti-Gypsy campaign to the ranks of new leadership could turn out to be the worst possible signal. Surviving the fall of the party state by doing what Dr. Andras Turos did (regardless of how this is explained) could provide encouragement to those who are inclined to promote discriminatory police action against Gypsies. This in turn will negatively influence the relationship between Gypsies and the new government.

## POLAND

### Silesians Want Environmental Aid Spent on Cleanup Not Research

90WN0181Z Katowice TRYBUNA ROBOTNICZA  
in Polish 19 Jun 90 p 3

[Interview with Jan Chmielowski, advisor to the chairman, Silesia- Dabrowski NSZZ Solidarity Regional Administration by Tomasz Zienkiewicz; place and date not given: "Well-Known Diagnosis, Insufficient Treatment"]

[Text] [Zienkiewicz] The Regional Administration has recently been expressing its discontent with the activities of the environmental protection department.

[Chmielowski] That is true! And this discontent began to arise after the last visit of the head of that department, B. Kaminski, to Silesia.

[Zienkiewicz] This fact caused the Regional Administration to decide to obtain a written answer on this question.

[Chmielowski] At the end of May and the beginning of June of this year, we addressed a letter to Premier Mazowiecki which contained a request for a presentation to us of a way to divide the foreign resources for environmental protection. Minister Kaminski sent replies to us.

[Zienkiewicz] Again in the form of generalities?

[Chmielowski] His answer—of course—contained many concrete details, but most commonly these did not concern the questions that we were the most interested in. In addition, much of the information sent to us by Minister Kaminski aroused reservations in us. We found out from the letter that, among other things, we are to buy modern, expensive equipment in the West to furnish the monitoring stations. This means that instead of engaging in energetic activities aimed at improving the state of the natural environment, we will still be concentrating on research to define the level of environmental contamination. And yet we know perfectly well what ails us. Thus, the main effort should be, in my opinion, to move toward treatment, and not toward diagnosis and the further elaboration of details regarding the data that we have at our disposal. The next matter which inspires disquiet in us is the principle of regionalization of tasks in the field of environmental protection, which Minister Kaminski prefers. We see here a certain contradiction, because this principle of regionalization is at variance with the fact that resources remain at the disposal of the center. Minister Kaminski proposes also to call into existence a huge Silesia-Krakow region of concentrated ecological efforts. However, we are of the opinion that Upper Silesia—the most ecologically contaminated region not only in the country, but in the entire world—deserves separate, special treatment.

[Zienkiewicz] Are conjectures being made that the resources for environmental protection are not divided fairly?

[Chmielowski] We will be able to give an answer to that question when we have at our disposal (for which we are strenuously striving) detailed data. For the time being, we are basing our judgements on scanty press information, which is disturbing for us, in as much as one too often hears of the allotment to this or that region of excessive sums for environmental protection, but too seldom do we hear that such sums got to Upper Silesia. Of course, we realize that this is a problem affecting Poland generally; we know that other regions have their own needs in this area. However, we believe it is high time for the central authorities to realize in full that the ecological situation of our region is exceptionally dramatic. Each year on average 900 more persons die here than in other parts of the country; the infant mortality index amounts to 30 deaths per 1,000 births here (in Bytom it even reaches 50), whereas in other regions of the country this index does not exceed 19 deaths and still exhibits downward tendencies. At the same time, instead of radical steps serving to change this situation, it is proposed to us that Silesia start up a factory to produce air-protection equipment. This is a valuable initiative, but the production of this equipment does not itself change the situation.

[Zienkiewicz] What are the further intentions of the Silesia-Dabrowski Regional Administration on the above-mentioned question?

[Chmielowski] We intend to inform Premier Mazowiecki about the existing conflict. We also do not exclude that we will undertake activities aimed at recalling Minister Kaminski from the position he occupies.

[Zienkiewicz] Thank you for the interview.

### Katowice Voivode Outlines Administrative Profile, Reorganization

90EP0691B Katowice TRYBUNA ROBOTNICZA  
in Polish 16-17 Jun 90 pp 1-2

[Article by Fraza Jad: "Return to Roots"]

[Text] Everything points to the fact that in the near future a new national administrative division will appear. It will take into consideration Poland's historical traditions and will be limited to 12 provinces of the voivodship type. In connection with this, the administrative face of the Katowice voivodship will undergo a change. The proposal for a new organization of the Upper Silesian voivodship is also centered on the return to the historical traditions of particular regions and is to embrace all of Upper Silesia and part of Malopolska.

In connection with this, the voivodship will be composed of "krainas" and "ziemias." Namely, there will be "krainas," such as, for example, those of Raciborz, Cieszyn-Oswiecim, Gliwice-Toszek, and Zagłoba. These are units formed by historical traditions, and their capitals are to fulfill the functions of centers of socio-economic life. Each "kraina" will be divided into "ziemias," which will also be strongly grounded in the traditions of cultural roots. In turn, "ziemias" will have the smallest administrative units in the form of gminas.

Such an administrative division of a new voivodship takes into consideration the whole of social, economic, and cultural variety in the broadest range. However, it is to make a united whole cooperating with adjacent voivodships: Opolskie, Bielskie, Krakowskie, and Częstochowskie. In practice, the social integration of the region is to take place through an efficient and modern transportation system, which will lead from the gmina to the capital of the "ziemia" and from there to the capital of the "kraina" and next to the capital of the voivodship.

These changes are supposed to create better conditions for restructuring the economy of the Katowice voivodship and also to influence in a decided manner the betterment of the condition of the natural environment. The connection to historical roots will favor the improvement of farming and develop a feeling of community among small social environments. The creation of local self-government will meet all this halfway.

Such an inspiring, imaginative vision of the new landscape of Upper Silesia and of its service to the entire Republic through the efficient functioning of the voivodship's administration and self-rule was presented by the

Katowice voivode, Wojciech Czech, at a press conference on Friday. This was his first meeting with journalists from the press, radio, and television since his accession to the voivode's office. In short and concise sentences, he presented his operational philosophy as well as methods of fulfilling the duties of his office in the new situation in which the government authorities are separated from local self-rule. At the voivodship level, the form of this local self-rule will be assumed by the Silesian regional council shortly.

The work of the Voivodship Office will undergo basic reform. Only 15 of the current 26 divisions will remain, and in the future there will be even fewer of them. The cadre reform will be conducted on the basis of four basic criteria: expertise, organizational ability, moral virtue, and age. Youth will be preferred, because, as the voivode stated, "young people find themselves more easily in a new reality."

The voivode's statement elicited understandable interest among the conference's participants. Many detailed questions related to, among other things, the conception of the new administrative division of the voivodship; the restructuring of industry, especially the fate of coal mining; the integration processes of the inhabitants of the voivodship, including their psychological and physical condition; the place of culture in a region that is traditionally industrial; and agriculture. Many of the participants' comments concerned the question of the tendencies toward Silesian autonomy that are here and there undergoing a renaissance. It was unequivocally emphasized that autonomy of the sort that developed in the pre-war spirit does not enter into the calculations. It does not fit today's realities, because it would favor the isolation of Silesia rather than its cooperation with other regions of the country. Silesia is an integral part of Poland.

In numerous answers to the questions posed, the voivode, Wojciech Czech, was aided by those present at the conference: Deputy Jerzy Wuttke; Henryk Goik, delegate of the government's plenipotentiary on reforms in local government; Andrzej Klasik, head of the voivode's group of advisors; Zenon Klatka, director of the Voivodship Office; Eugeniusz Wrobel, deputy voivode of the Katowice voivodship; and Zdzisław Jas-kola, chairman of the City Council in Katowice. The voivode of the Katowice voivodship announced that he will continue to meet with journalists. He emphasized that he does not imagine that he will perform the duties of his office without the effective communication of full information about the problems that society is living with as well as about the programs and directions of the activities of the voivodship authorities.

New and clearly defined conceptions of the authority of the Katowice voivodship imbue one with faith in the people who were appointed to these responsible functions. One can only wish that they will find their expression in practice as quickly as possible. This will be

possible with the support of all of society. Voivode Wojciech Czech is in this respect an optimist.

## YUGOSLAVIA

### Tudjman 1989 Remarks on Jasenovac, Milosevic Published

90BA0203A Belgrade INTERVJU in Serbo-Croatian  
8 Jun 90 pp 64-66

[Article including interview with Dr. Franjo Tudjman, leader of the Croatian Democratic Community, by Mila Stula, on 7 March 1989; place not given: "I Really Do Not Want Power"]

[Text] "Three years ago a man communicated to me the names of two men, one the head of the kotar state security administration and the other his deputy, who murdered my father and his wife. This was my stepmother, my mother had died young. This was 1945/46, when the socialist, I would say Stalinist, and indeed, in that sense even Titoist, regime was settling accounts not only with outright opponents, members of the Ustasha, Chetnik, and in Slovenia the White Guard movements, but also cruelly eliminating respected people who had influence with the people and who had not bowed to the influence of the party. My father was one of them.

"It is well-known that I was in Belgrade at that time, in the Ministry of National Defense, and from my point of view such occurrences in the field were prohibited. In Croatia at that time, two or three prewar representatives of the Croatian Peasant Party were illegally murdered during the night. And so my father, who the Ustashes arrested in 1941, who was in the Partizan movement, who was a member of ZAVNOH [Croatian Regional Antifascist Council of National Liberation] and AVNOJ [Antifascist Council of Liberation of Yugoslavia], who at the time when he was murdered was chairman of the regional committee for the Zagreb Region, saw when he was a grown man that the party was in its way headed toward ruin. I remember when he went off to Belgrade for the Third Session of AVNOJ, when AVNOJ was transformed into a constitutional assembly, he literally said to me: 'Son, can it be this that we fought for?' That is the last thing I remember about him," Dr. Franjo Tudjman, president of the Presidency of the Croatian State, said in "Hrvatski Rubikon" [Croatian Rubicon].

And thus little Franjo became an orphan. Who knows what kind of trauma that left on the mind of the immature child (he was only 23-24 years old), but now Francek has seen the day when to his father's pride he has become the president of all Croats. And he even received the blessing of the eminent Cardinal Franjo Kuharic, who bears the same first name, which even in his boldest dreams as a general he did not dare hope for. And the way things have gone, perhaps Dr. Franjo T. will even become a cardinal. Nothing is unattainable and unfeasible if it is in the interest of Croatia!

"And, let us be clear about this, I did not become a Croat because I later became aware of these tragic actions. I was always a Croat within the framework of that communist Partizan movement. I never wrote anything else in my documents except Croat; my thinking and action was never anything other than the Croatian cause, in contrast with some people who today boast that they are Croats, but who in the sixties and seventies were Yugoslavs," President Tudjman recounts.

And for that reason he did not stay in Belgrade.

"I saw that for me and my children that would be a tragedy. That would be a betrayal of those ideals for which I lived and for which I ended the revolution. What I wanted, then, was to go back to Zagreb, for my children to finish their schooling in Zagreb and be members of that nationality to which I also belong."

To be sure, Dr. Tudjman never mentions his grandchildren. The question is what nationality do they belong to if their father was a Serb? But the important thing is that the children are not orphans. We have seen from the grandfather what traumas that can cause.

They can even become people who hold a grudge. Perhaps as a grandfather. After all, to this very day Dr. Tudjman has never forgiven the failure to publish an interview which he gave in his home (according to the transcript, on 7 March 1989). But it is not that we did not want to publish the interview. We were prevented in that intention by Article 67, Paragraphs 1 and 2, of the Yugoslav Criminal Code, under which, the verdict reads, "Franjo Tudjman is prohibited from public appearance in the press, over radio and television, and in public assemblies, and from engaging in publishing for a period of five years."

And since recently many people have begun to threaten me, presumably because of Dr. Tudjman's increasingly frequent reiteration of his complaint that the interview was not published, we decided to publish it now. For one thing, so that people can see the consistency of the views of the Croatian president.

"We referred to our initiative as Democratic Croatia because we wanted to indicate that we do not want to be a political party, that we want to operate within the framework of the constitutional order, which means that we would like to see the Socialist Alliance transformed into a front for diverse ideological and political currents and that we are making a contribution to getting out of this crisis as painlessly as possible, since it is obvious that the League of Communists will not give up its position so easily," Tudjman said in the interview mentioned.

In answer to the question of whether the Croatian Democratic Community, if it held power as the League of Communists does, would give up that power to someone else without a fight, Tudjman replied:

"Perhaps you will not believe this, as far as I am concerned, that is a very unusual question, since I am a

man who has fled from politics and I have not wanted power. If I was a member of the initial group to form the HDZ [Croatian Democratic Community], that was only because I joined those people who felt that under the conditions that prevail today in Yugoslavia and in the world, it is essential not only from the viewpoint of the Croatian and Serbian people in Croatia, but in general from the standpoint of relations in Yugoslavia and in the world, that the democratic opinion of the overwhelming majority of Croatia be heard. That is why I was a member of that group, but I really do not want power. I removed my general's epaulets, I have moved in the direction of scholarly life and work, and it is quite clear that up to now in history there has hardly ever been a case when a party voluntarily gave up power."

[Stula] Does it not seem to you that this political pluralism that has rushed into Yugoslavia in our time necessarily ends up with the hegemony of a single nationality?

[Tudjman] What you have said is a phrase, a piece of rhetoric whose purpose is precisely to prevent democratization. You did well to use the expression "rush in." That is because we did not have a democratic society or democratic practice, and there were necessarily various initiatives, since there was a desire on the part of the immense majority to get out of the crisis. It is clear that there were also ambitions here driven by a desire for power. However, it is precisely what is happening on Slovenian and Croatian soil. I am not so familiar with things in Serbia, that is, conditions in Serbia are cast in a shadow by what has been happening at those large rallies and in connection with Kosovo, which precisely indicates that it is not a question of ethnic homogenization.... [as published; the question concerned "hegemony" and the answer "homogenization"]

[Stula] Although various alliances and communities have been established, there does not seem to have been resistance to any one of them as there has been toward yours. How do you interpret that? Is it because of the image which follows you or is something else involved?

[Tudjman] I think something else is involved. It is a question of a negative legacy of a politics which has followed us for rather a long time now, especially since the so-called Croatian Spring was crushed. Let us get this straight, I was never a figure in the mass movement, I was expelled from the party before that. I do not approve nor do I desire to approve a repetition of the mass movement nor that policy. But the resistance to us has arisen simply because of the programmatic foundations of the HDZ in which we wish to establish a Croatian policy not only in the interest of the Croatian nationality, but also of the Serbian nationality, and in general all those who want to join us in arranging our life together in Yugoslavia. We have met with a lack of understanding, there is a kind of deception to the effect that every manifestation of Croatian national consciousness means peril for Yugoslavia....

[Stula] The same thing is asserted in the case of Serbia—that a manifestation of Serbian national consciousness also means peril for Yugoslavia?

[Tudjman] There is also some of that. But I consider both of them unrealistic. What has happened in Serbia is a special historical phenomenon. At first glance, Serbia has come into conflict with Croatia and Slovenia. In the background of that, one actually finds the unrest of the overwhelming majority or of a considerable portion of the political currents in Serbia, not only political, but also cultural, largely justified, because Serbia's position as a state had not been regulated....

[Stula] Some people have recently tried to find similarities between the mass movement in 1971 and certain events in Serbia in the period 1988-89. What is your evaluation, are there similarities, what points do they have in common, and where are they different?

[Tudjman] At first glance, there are certain similarities, since a majority of the population was behind that leadership in Croatia, just as now it is undoubtedly behind Milosevic. There are similarities only at first glance, since the Croatian political leadership at that time was advocating a "clean slate," and in a way that meant a strengthening of federal relations. What has been happening in Serbia is from one angle justified—that Serbia should be a unified state along with its provinces, but from another angle one also hears loud voices against what here we would call, and is otherwise called, the AVNOJ spirit of this Yugoslavia: against the rights of the nationalities to equality, to sovereignty within the framework of Yugoslavia....

[Stula] What in your opinion is Yugoslavia's future? How should it be arranged?

[Tudjman] That is a topic for a discussion in itself. You see, Yugoslavia can be renewed only on the assumption that it is a community of equal nationalities. When in Serbia today they say that the 1974 Constitution is to blame for everything, then this is a great mistake. I leave the relationship of the provinces to one side. There is no dispute that there were many inconsistencies in that Constitution. But as for the entirety of Yugoslavia, the 1974 Constitution, when it instituted consensus, did not introduce an erroneous federalist principle, since that principle was already contained in the AVNOJ decisions. It was supposed to guarantee that under no conditions would one nationality have hegemony over the others. Some 20 years ago, I said that the League of Communists must have one programmatic foundation, the Socialist Alliance another, and that one should be a check on the other within the framework of the socialist movement. Which means that we need not adopt any kind of capitalism. I am telling you the ideas that I had some 20 years ago, but since I did not want to become involved in active politics, I did not set them forth, but you can find them in our books.

[Stula] More recently we have heard with increasing frequency the thesis that the Croats are the natural allies of the Albanians. Is that so?

[Tudjman] That is how it turns out in reality. However, why only the Croats? It is also a question of the Slovenes, isn't it? The problem is actually the same, and, simply put, the Albanians have nevertheless, in a certain sense, been subjected to a diminishment of their autonomy. They are offering resistance to the renewal of Serbian domination as it existed and as they remember it right up until the Rankovic period. It is also remembered in Croatia and Slovenia. They feel an infringement of their national rights, the rights which they enjoy as federal republics, when people want to impose on them in every way a neocentralist and neounitarian system of government. That is actually the origin of a kind of alliance....

[Stula] Do you think, then, that that thesis about Serbophobia also makes sense?

[Tudjman] It is not at all a question of Serbophobia, but a question of the conviction on the part of a majority of Croatian intellectual circles, who have learned from historical experience, that Belgrade, Serbia, including even the most liberal intellectuals, cannot imagine Yugoslavia otherwise than as a Yugoslavia in which Serbia has the decisive role. Something arises from that context which is very, very disturbing for Croatia, and Serbian professors, historians, lawyers have argued that Croatism is genocidal by nature. The Jasenovac myth has been developed to the point of an unprecedented folly....

[Stula] And so it was folly?

[Tudjman] Just a minute, some 30,000-40,000 people suffered in Jasenovac. That is a great many, that is a horror, but who and for what reason needs to exaggerate this 10-, 20-, 50-fold, and not be satisfied even with 70,000, but to 1.5 million, or indeed even more than 2 million. And then they conclude from all that that Croatia did not have a national liberation struggle, that the Croatian people had only Pavelic, genocide, and at the same time they forget that genocidal acts of that kind were also committed against the Croatian people. That the Chetnik movement had just as genocidal a program against Croatia as the Ustasha program had toward the Serbian nationality, they are all silent about that. The losses of the Croatian and Serbian people were approximately the same. Those are historical facts and historical reality. Accordingly, we not only have to speak about both one and the other, but we have to face the truth just as it is, so that we can remove the causes and prevent something similar from happening again. After all, you will find few people you talk to who lost as many in that war as I did. My brother, my father, and my mother. But to speak only about Jasenovac and to construct from that theses about the genocidal nature of all Croatism, from Starcevic, Strosmajer, Trumbic to the present day, is historically and politically horrible....

[Stula] Do you think that there is a danger of interethnic conflicts in Yugoslavia?

[Tudjman] What I am going to say to you now is a historical truth. I received a telephone call at almost 0200 hours from a man in Belgrade, a Serb. Forgive me, he said in Serbian, for waking you at this hour. I have just come from a rally, I am afraid this is taking on fascist features, and I have information that Solevic has an organization to promote this in every town in Croatia, the man says, I am afraid that this will be not only Stalinism, but even fascism, and I am afraid that we will all be atoning for this for decades.

[Stula] If that man had such information, I hope that the service which defends this country also had it, why was he giving it to you?

[Tudjman] It is very interesting that Solevic announced it. He gave an interview to that effect in SLOBODNA DALMACIJA.

[Stula] Do you not agree that neither Solevic nor any other Solevic, wherever they may be and whatever their convictions, still cannot conduct the policy of this country?

[Tudjman] I agree, but we cannot preclude the negative role of certain figures in certain times and in certain events.

[Stula] Do you think that Croatia has such a figure, such a leader?

[Tudjman] I do not see one. If we follow political life in Croatia, it is a well-known thing that Suvar was barely elected, that he barely got by in Croatia, and that he then experienced there what he experienced. But I will not get into that.

[Stula] You have singled out only Suvar as a political figure in Croatia?!

[Tudjman] I think that Suvar is one of the best-educated Communists, that he is an astute politician, but that a great deal more is required to be accepted as a leader even within the party framework, but especially on a broader scale. He would have to be different!

[Stula] Like Slobodan Milosevic?

[Tudjman] Slobodan Milosevic is also an astute politician. He has known how to use the dissatisfaction of the Serbian people with Serbia's position, the dissatisfaction of the Serbian population in Kosovo. I would even say, and I really believe this, that the position of Serbs in Croatia was not so tragic that that kind of policy had to be conducted, but that in large part this was an excuse for changing all the premises both at the level of the Federation and also in the republics.

[Stula] Do you mean to say that Milosevic was a "great writer of scenarios"?

[Tudjman] I would not like to talk about that. I think that in any case he was a man who contributed to the extreme exacerbation of the situation in Yugoslavia and

that it will take a great deal of goodwill and common sense both in Serbia and also in Slovenia and in Croatia, throughout Yugoslavia at large, to sit down at the table and to really discuss a way in which these nationalities can live in Yugoslavia, a way in which we can get out of the deep crisis in which we find ourselves.

[Stula] Perhaps now the ball is in the court of your Community?

[Tudjman] No, listen, as far as I personally am concerned, I would only like to see the emergence of a Croatian public opinion, nothing more.

That is what Dr. Tudjman said in the interview not published until now. And then "something more" happened. The man who "fled from politics" and who "did not want power" became the president of his state and indeed a popular leader. And perhaps, the way things are developing, he will soon become the vice president of the SFRY Presidency, since, you remember, Suvar is an "astute politician..., but much more is required."

So it soon could happen that Dr. Stipe Suvar would be recalled from the Yugoslav Presidency, and under the rules the president of the Presidency (it is still called that) of SR Croatia would be sent to that same Presidency. That is, Dr. Tudjman. And the one-party Croatian Assembly, its first session convinced us of that, will follow urgent procedure in sending the most deserving of all Croats back to Belgrade for good. The question is only whether Dr. Tudjman can stand the Belgrade climate. After all, you will remember, he fled from it once before, did he not? So before the year is out Yugoslavia could have Tudjman as its president. All well and good that Croatia deserved him, but what has Yugoslavia done? And as far as Croatia is concerned, in this elegant way it could rid itself of the "silky" representative of the HDZ and replace him with—who else but Sime Djordan. Then the Croatian gun would finally be brought up to the Croatian shoulder.

Incidentally, is there not a report from the Lepoglava Admissions Department dated 1 February 1982 which says of the present Croatian president that he has "average intellectual abilities and detectable neurotic impediments, emotionally tense, diminished tolerance resulting from frustration, preoccupied with himself, intolerant of the person to whom he is talking, aggressive. His health is quite seriously impaired.... Unable to work."

Perhaps it would be better, then, to send him to some less strenuous job, since Croatia has big jobs ahead of it.

#### New Croatian Premier Mesic Interviewed

90BA0192A London NOVA HRVATSKA  
in Serbo-Croatian 3 Jun 90 pp 11-12

[Interview with Stjepan Mesic of the Croatian Democratic Community, by Renato Perica; place and date not given: "Interview With Stjepan Mesic, Mandate for

Forming the New Government of the Republic of Croatia: Everyone Expects Establishment of an Emphasis on the Rule-of-Law State"—first paragraph is NOVA HRVATSKA introduction]

[Text] Since its first multiparty and democratic elections during May 1990, Croatia has been on the high road of becoming a rule-of-law state. The Croatian Democratic Community [HDZ], as the party that captured the most seats in the Assembly, is obligated to chart the way out of the economic crisis. The HDZ received the mandate to form the new government in the multiparty parliament in Croatia. The leaders of the Croatian Democratic Community have entrusted this mandate to Stjepan (Stipa) Mesic, a lawyer from Slavonska Orahovica. We spoke with him at the offices of the HDZ in Zagreb.

[Perica] Would you begin by giving the readers of NOVA HRVATSKA a brief summary of your past, especially those things that are not particularly well-known in emigrant circles?

[Mesic] I was born in Slavonska Orahovica in 1934. I attended numerous schools—in Orahovica, then in Pecs, Hungary, since I fled to Hungary with my family during the war... In 1945, I returned to Croatia, finished high school in Slavonska Pozega and studied law in Zagreb. There I entered into a master's program, which I did not complete. Many people write an "mr." by my name, but that is not accurate.

[Perica] There are eight more days until the new Assembly convenes. The HDZ has the historic responsibility of organizing the government of the republic and defining fundamental social relations. Your position, having captured a majority in the Assembly, is to form a government on your own. In some prior interviews, you have said that the government will be composed of politicians and experts. Can you give us more details on the program of the future Croatian government, and about what the first steps of that government will be?

[Mesic] The program of the HDZ is also the program of the Croatian government. We presented it and the Croatian people approved it in the plebiscite. What we have to do now is put this program into effect. We have proposed an open market, a free-enterprise economy, opening up to Europe, inclusion in Europe, a rule-of-law state and its actual functioning as such, because this state has never been under the rule of law. Beginning with the SHS [Kingdom of Serbs, Croats, and Slovenes], through the kingdom, and ending with postwar Yugoslavia, we have never had a rule-of-law state in Yugoslavia. The new Yugoslavia created during the war was never validated in free elections. The first free elections are in fact these elections, and from now on we in Croatia can talk about a rule-of-law state.

[Perica] It is alleged that your government will be nationalistic and that a nationalistic government is not possible in Europe. However, those who say this forget that there are in fact several nationalistic governments in Europe,

such as the FRG, which wants to unite the two Germanys, and the government of France, which attaches importance to cherishing the French language and French culture. What do you say to that?

[Mesic] The HDZ is a national party. We have said so from day one. It is national because it defends the interests of the Croatian people, both at home and abroad, it defends the interests of Croats in the diaspora, in other neighboring countries. We are a national party because we defend the interests of all inhabitants of Croatia. I do not know why the struggle for the Croatian people, the struggle for a position for Croatia enjoyed by every other people in Europe, should be termed nationalistic. We are not doing anyone harm, but we want clear accounts in this agreed-upon state. We want everyone to have free disposal over their means, we do not want any spillover whatsoever—neither other people's resources spilling over to us or ours spilling over to them.

[Perica] Do you intend to organize new departments in the new government, and how and with what people have you discussed forming the new government thus far? Can you give us some names of future ministers?

[Mesic] One example of a new department will be the Ministry for Croatian Emigrants, because a large part of the Croatian nation has moved away, from Tierra del Fuego to Alaska. Secondly, there will be a separate minister for culture, even though he will not be appointed as such for the time being, since he will cover schooling and technical and physical culture, because there is a law to that effect in the Executive Council. We will be changing that and creating a separate Ministry for Culture as soon as possible. We will also create a Ministry for Maritime Affairs, because we are a maritime country and want to emphasize that.

We have talked with Dr. Hrvoje Kacic with regard to the Ministry for Maritime Affairs, but since he is a representative in the Assembly he cannot be minister, so that it will most likely be—although not all the talks have been completed yet—Dr. Davorin Rudolf, a university professor from Split, and an expert in maritime affairs. Internal affairs will most likely be headed by Josip Boljkovac from Karlovac and Prof. Dr. Milan Ramljak from the School of Law in Zagreb, who will be the vice chairman of the Executive Council responsible for internal affairs.

[Perica] Croatian emigrants are most interested in who will be their minister. In earlier interviews, you have mentioned his name, but since the person in question is a minor figure, lacking confidence among emigrants, could you tell us whether you have anyone else in mind for that post?

[Mesic] Gojko Susak, our emigrant from Canada and a member of the HDZ, will be the new minister for Croatian emigrants. He has done a great deal in working with emigrants, and has demonstrated high-level organizational skills. We think that he will be satisfactory in this post.

[Perica] What functions have been assigned to him?

[Mesic] His task is to present everything that is happening in the country to emigrants as quickly and as reasonably as possible. And also to encourage emigrants to return, to invest capital in Croatia.

[Perica] What is your solution to relations between the developed part of Yugoslavia with the undeveloped parts? Do you intend to abolish the fund for the undeveloped areas?

[Mesic] Ever since the war, efforts have been made to work with the model of the developed part of the state giving to the undeveloped republics. And under this model, those who are developed have become less and less developed, while those that are undeveloped have fallen further and further behind. This model is obviously wrong. It should have been abolished long ago, because it has obviously not yielded the expected results. Since there is not only friendship, but also interests between the nations, as De Gaulle said, there are also interests between the nations in this country. And we support the position that investment should take place only on the basis of interests.

Here the problem of nominal ownership arises as well. We must solve this problem, turn state ownership into ownership by stockholders, including that which is invested in the undeveloped parts by the developed areas. Let the people in the undeveloped parts create the prerequisites for improvement that will yield a greater profit, and resources will then go there. Their sources of revenue will develop, but on the basis of interests, and not in a situation where they are given resources that someone else owns and someone knows how to handle. The fund for undeveloped areas in this form is a bottomless pit, while on the basis of interests, everyone will benefit: both the undeveloped areas in that capacities will be opened up there and the others who are providing resources because they will benefit from that change. No one has made any progress through assistance, because as the Chinese proverb says, "If you want to save a man for one day, give him a fish, but if you want to save him for his entire life, teach him how to fish." We want to teach our undeveloped areas how to fish.

[Perica] The FEC [Federal Executive Council] and Prime Minister Markovic are planning soon to adopt a new package of economic measures. Are you familiar with any of the proposals in this new program, and what is your assessment of the results of the reforms thus far?

[Mesic] We have not yet contacted Markovic. Thus far, we have spoken with the president of the Presidency of Croatia, the president of the Assembly, the president of the Executive Council in connection with the transfer of government, and with Stipe Suvar, as our member and vice president of the Presidency of the SFRY. We have had no occasion to talk to Markovic, so that we are not yet aware of the concrete proposals that he is taking before parliament and the public.

We support those measures that lead to a free-enterprise economy, to opening up markets, to tearing down barriers, to equalizing business conditions in the country, as in the developed world, but we do not support any type of centralization or any spillover whatsoever. Here we do not agree with Mr. Markovic.

[Perica] Since there are solutions in the existing laws with which you do not agree, are you already preparing laws that could change things in the near future?

[Mesic] In fundamental terms, we must adopt a constitution, and from the constitution will come all the laws that will be the same as the corresponding ones in Europe, as well as all others within Europe. All the states in Europe's Common Market have corresponding laws, and thus we must create this prerequisite so that Europe can deal with us seriously.

We cannot introduce this half-heartedly. We must adapt to whatever functions well, whatever yields results, and not engage in some experiment that will lead us into even greater poverty.

[Perica] What about taxes and social contributions?

[Mesic] The tax system must be harmonized entirely with that of Europe, so that we can count on Europe and they on us.

[Perica] In an interview with NEDJELJNI VJESNIK of 13 May, you mentioned a separate currency and a central Croatian bank. Dr. Tudjman distanced himself from these remarks, saying that such remarks were nonsense and the opinion of an individual, and not part of the future official Croatian policy.

[Mesic] In that interview, I was simply interpreting the talks that were conducted, because we said that we can negotiate and function in this part of Yugoslavia only as equal partners. But if there were a desire to keep Croatia at such a distance that it would not be an equal partner, then we must have a way out of that situation. And in that case a separate currency was mentioned.

[Perica] What do you plan to do in the area of transforming ownership from social to private, stockholder, state?

[Mesic] For now, we are just gathering together people who are familiar with this problem and who can propose solutions. We must adopt ordinances that will ensure the transformation of ownership, but we will not permit plunder, because in the end social ownership represents someone's hard efforts.

[Perica] What about denationalizing nationalized property?

[Mesic] Wherever it is possible, we are considering doing this as soon as possible. In some areas this will be impossible. In theory, it is feasible, since some states have done it. Ultimately we will go with the most reasonable solution.

[Perica] What do you intend to undertake with the economic situation, faced with a period of bankruptcy?

[Mesic] The economy is already in a difficult situation today. There are 250,000 people working in firms whose transfer accounts have been frozen, and if they are not unfrozen within a period 60 days, they will have to go bankrupt. There are 25,000 people working in firms where bankruptcy proceedings are under way. We must create opportunities whereby new firms can be opened immediately to replace these old bankrupt ones. In other systems, many firms go to ruin, but at the same time new ones emerge right away. The new work place will be open to the free-enterprise economy, to an Adriatic orientation. It is critical that we develop the infrastructure, build up the Sentilj-Zagreb, Zagreb-Split, and Zagreb-Rijeka roads. We will have several variants in terms of building these roads, but we are interested first and foremost in a joint-stock company. A country that has not attended to trade has not made progress.

[Perica] It is being said that you are conducting talks with foreign business people about investing in Croatia. Is it already possible to project a basic figure for a possible influx of capital into Croatia, and where would it come from?

[Mesic] South Korea, France, Hong Kong, Japan—all of these are countries with whose business partners we are engaged in intensive negotiations and talks. All of them are waiting for the rule-of-law state to take effect so that they can possibly invest their money.

[Perica] Health is one of the key points of social security. Ours is in a catastrophic state. Have you included Dr. August Gliha, the current vice chairman of the republican committee, in the project to revive health?

[Mesic] All of these areas (health, social security...) will be resolved by teams composed of experts, who will propose the best solution for each of these areas, including health. We have a large number of people employed in health services, but it still does not work; we have a large number of people employed in old-age insurance, but it still does not work to a satisfactory degree.

[Perica] In Croatia there is fear of the unknown, of revanchism, as well as anxious and tense anticipation of better days. Among those most tormented by these fears are retirees, especially retired officers of the JNA [Yugoslav People's Army] and the police. What do you plan to do with their rights to old-age insurance and with old-age insurance in general?

[Mesic] As far as I know, modern states have never tampered with acquired rights, and so neither will we tamper with these acquired rights. But wherever unallowed funds have been exploited in order to acquire such rights, we will have to reconsider the situation. Moreover, for those retirees who have acquired their pension through their labor, there are no misgivings whatsoever.

[Perica] What about the experts who are not HDZ-oriented, but are willing to work together with you for the good of Croatia?

[Mesic] There is no partisanship among experts. Every expert will have the opportunity for promotion in the professional sense according to their merits. Here we will not be burdened by any sort of HDZ restrictions.

[Perica] The current political situation changes from one day to the next. What do you think about the pressure by B. Jovic on Croatia and Slovenia and the provocation with which the elections in Croatia and Slovenia and the legality of the new government are not recognized, and the fact that they have been said to constitute a threat of civil war?

[Mesic] This is obviously his personal opinion. This is not the opinion of the Presidency of the SFRY, and it is probably the problem of Mr. Jovic and those on behalf of whom he speaks, the shapers of the "antibureaucratic" revolution. It is likely that his declaration was for his own domestic use in Serbia. This does not particularly concern or upset us.

[Perica] With regard to the pressure from the SAWP [Socialist Alliance of Working People] and V. Kadijevic in connection with the seizure and warehousing of Territorial Defense weapons in barracks and depots, the government of Croatia has not done anything...

[Mesic] In every modern state, the army is an administrative organ and its basic task is to protect the borders. Our officers will have to understand that they too are an administrative organ, not a party organ. The sooner they understand that, the better for them.

[Perica] The new Slovenian defense minister, Janez Jansa, declared that act unconstitutional and demanded that the JNA rescind its order.

[Mesic] In Slovenia, the new government has been installed, and that is where we are different. Look, an order like that is unconstitutional in any case, because the weapons that the JNA is collecting are weapons that enterprises and municipalities bought for the needs of

territorial defense. Under the Constitution, the Presidency of the republic is responsible for territorial defense, and the army is not permitted to do that in any event. I do not know why they did it—perhaps this is an element of psychological pressure. But the Croatian Democratic Community is a strong force, with more than 800,000 members, and we cannot be intimidated by any collection of weapons. We shall implement democracy and do everything else to live under democracy.

[Perica] What is your relationship with the Serbian Democratic Party [SDS]? Why did Jovan Raskovic not accept participation in the new Croatian government, and what do you think about the reported suspension of all relations between the SDS and the new Croatian government?

[Mesic] As a people in Croatia, Serbs are a political factor, and J. Raskovic is the chairman of a Serbian party. We felt—and we will still carry out this view—that the government should be an HDZ government, but like every democratic country Croatia too has its parliament where every party can find its own identity.

[Perica] A few economic questions to end this interview: Croatiapress, Croatia Airlines...

[Mesic] It is very likely that we will establish our own press agency, and as far as an airline is concerned, that will depend on whether stockholders will be interested in investing in such a company. We hope that they will.

[Perica] What will the flag look like after the new constitution is adopted?

[Mesic] All partisan and ideological features will be removed from state symbols, or rather that is what we favor. We will propose the replacement of the star with the historical Croatian coat of arms, and we will see whether the republican Assembly will accept this.

[Perica] The first one hundred days of the new government will probably pass without any major comments. But after that, the first criticism will come. Is it possible for us to arrange for an abridgement of the initial days of the new government and agree with you on a second interview after a hundred days?

[Mesic] No problem, and we can even do it before then.

## GERMAN DEMOCRATIC REPUBLIC

### Eppelmann's NVA Leadership Seen at Odds With Unification

#### Command 'Status Quo' Maintained

90GE0198A Bonn RHEINISCHER MERKUR/  
CHRIST UND WELT in German 8 Jun 90 p 5

[Article by Michael J. Inacker: "Governing Is Ever so Nice..."]

[Text] "Everyone talks of unification—we don't." This seems to be the self-imposed slogan these days for the National People's Army (NVA) of the GDR and its minister for defense and disarmament, Rainer Eppelmann. While preparations for economic, currency, and social union are in high gear, a security union is still some time off. On the contrary: Eppelmann—who has now moved into a state villa with swimming pool—and his under secretaries are doing everything to make the NVA structurally unfit for unification.

This impression is not only imparted in public statements by the political NVA leadership, but also in background talks with official and private West German visitors. Although Federal Defense Minister Gerhard Stoltenberg and his GDR colleague in their joint statement on the occasion of their second meeting on 28 May spoke of an intensive and "friendly discussion," Stoltenberg's advisors on the Hardt Hill of Bonn are feeling increasing aggravation about status-quo politician Eppelmann.

Until now, the clergyman and pacifist has not succeeded in transferring the contents of the political changes in the GDR to the NVA. At the same time, according to a military officer in Bonn, "one doesn't recognize at all that there is concern over there about the structure, internal condition and mission of the all-German Armed Forces." Instead, the "continuity of the NVA" is to be preserved.

The old political cadres in the corps of officers survived the overthrow without injury. Largely because Eppelmann and his coworkers are masters at incompetence and "chaotic management," Westerners said in conversation. Symptomatic is that the job of personal spokesman for the defense minister was given to senior master and teacher of religion Dietmar Herbst from Hannover, who, according to his own information, acquired his security-political knowledge through "years of engagement" in the West German peace movement.

But while the political leadership in the peace-loving ivory tower lacks broad political vision and power to assert itself, the sworn SED-PDS [Socialist Unity Party of Germany-Party of Democratic Socialism] generals and admiralty are benefiting from the leadership vacuum and reforming. Of course one doesn't want to exclude oneself from a political face lift, and in Western intelligence estimates about 60 to 70 percent of the

mid-level and younger corps of officers have approved the change of political course—but the old top military leadership remains as it was: a closed society, the pretorian guard of the old system. What the Stasi was toward the interior, the NVA is toward the exterior. Part of this sad story of the People's Army is also the notorious DV 30/10 firing order.

"Is all that now forgotten?" asks an officer of the command staff on Hardt Hill in Bonn, who fears that in all the discussions about Germany's future security structure and the NVA's organization "ethics will coldly be left behind." The military leadership and planning staffs on the Hardt Hill are not concerned with "persecutions of Christians" or moral rigorously in this matter, but they regard Eppelmann's "let bygones be bygones" principle as insufficient. The full-bodied announcement of the NVA military reform remains in the grip of top military people in the East and will take the direction they want. A high officer on the Hardt Hill says in an almost resigned tone that "one should really be able to expect a democratic government to create an army that corresponds to the democracy and the goals of the political changes."

Thus, Eppelmann not only left his predecessor, Admiral Theodor Hoffmann, in office as head of the Armed Forces and continues to value his "professional competence," but he made a full apology on behalf of his entire military force to Defense Minister Stoltenberg. And at the meeting of NVA commanders on 2 May, Eppelmann gave his reasons for the future "service motivation": "As a man of the peace movement," to begin with he needs a "realistic view" of the security-political situation. Accordingly, it looks like he expects this expertise primarily from the corps of NVA commanders schooled at Soviet military academies.

In addition, he advocated for the umpteenth time the "continued existence of the NVA" as "a second German Army" at a level of 100,000 men and—as is now being contemplated—with its own unit colors. The GDR may "not become subject to blackmail," is his credo.

With his plea for maintaining the NVA, Eppelmann combines a wish for the "security-political independence" of the GDR as long as NATO and the Warsaw Pact exist. Not a word any more about the goal that he and Stoltenberg established at their first meeting on 27 April: "A unified Germany as a member of the Atlantic alliance, without expanding NATO military structures to GDR territory."

But with his defense policy concepts, the GDR defense and disarmament minister is also in contradiction to his own government coalition. During a conversation with People's Chamber delegates at the end of May, Eppelmann's political isolation became clear.

However, this doesn't change the fact that the minister is acquiring more and more friends in his new office. He enjoys traveling in his official Tupolev. Discussions are said already to have been held that in the event of

unification Eppelmann would be able to continue in office, appointed and legitimized by the still to be formed Laender governments of the GDR.

At the commanders' meeting Eppelmann described as a particular concern the "shape of the relations between the National People's Army and the Armed Forces of the USSR." This matter involves primarily the "maintenance and strengthening of the cooperation with the commanders, leadership organs and troops of the Western group of the Soviet Armed Forces" in the GDR.

While cooperation is thus urged in this area, representatives of the Federal Defense Ministry are still being treated as alien elements. Assistant Secretary Krueger-Sprengel from the Hardt Hill, who spent a long time at the GDR Defense Ministry in Strausberg, was thus able to count on everything—except help and support.

Hardt Hill therefore takes an extremely skeptical view as regards the security-political merger of the two German states. To be sure, an "intensification of cooperation" has been agreed on for the Armed Forces in the areas of security and arms control policy matters, evaluation of defense materiel, development of defense administration and the budget system, internal command, training and advanced training and finally sports. But for additional steps the GDR Defense Ministry has to alter the foundations for doing business.

Although Stoltenberg himself still exercises restraint, people on the command floor of his ministry are expressing themselves more clearly. At least the "symbolic figures" of the old system have to go. This is, moreover, necessitated by the size of the personnel in the NVA: While the Bundeswehr at present has about 220 generals and admirals, the NVA, at only a quarter the size, has the luxury of more than 300 such top military people. All told, a reduction of the NVA to 50,000 men could be the beginning of a restructuring as well as a spiritual-political renewal.

Exchange programs in staff and troop service in the Bundeswehr could then be established for the remaining officers, as well as retraining courses, so that the differences between the two German armies would quickly diminish. On Hardt Hill one could envision as a defense policy structure for the eastern part of Germany an Eastern Territorial Command, not belonging to NATO, which differs from the Armed Forces in the western part of Germany even as far as the chains of command and is placed under an under secretary attached to the Federal minister of defense.

But one is still far from realizing such hypothetical models. Not only are GDR Minister Eppelmann and his red Prussians against it—even the outcome of the "two-plus-four-talks" is still open on this matter. However, on Hardt Hill the latter tends to be regarded with more optimism than Eppelmann's special security policy course. It is likely to be a long time before German soldiers from East and West are able to drill shoulder-to-shoulder.

### Equitable Force Cuts Endangered

90GE0198B Bonn DIE WELT in German 19 Jun 90  
p 5

[Article by Lothar Ruehl: "Eppelmann Wants To Keep the NVA at Core Strength"]

[Text] The continued existence of the National People's Army of the GDR is becoming increasingly problematic for the Federal Republic and for German security policy. This applies to the Vienna talks on parity for the conventional armed forces in Europe as well. The problem is personified by the GDR's minister "for disarmament and defense," clergyman and People's Chamber Deputy Rainer Eppelmann. He evidently hesitates actually to disarm the NVA, and instead tries to defend it at core strength.

The NVA problem has three principal aspects for the FRG, as well as for a unified Germany as a whole:

- The attitude toward the democratic state and national loyalty,
- connected with this, the foreign policy orientation and trustworthiness of the personnel,
- finally, its objective effect on the size of the all-German forces as a counting rule for arms control and structural planning.

1. The national political aspect involves a lack of democratic and national legitimacy for the NVA, primarily its career and long-term servicemen. To be sure, the NVA has formally distanced itself from the SED and its successor party, the PDS, as well as from the socialist state doctrine of the past, and has declared itself bound by the GDR constitution and the defense mission alone, including the Eastern alliance of the Warsaw Pact. But until now the NVA has not served a democracy, and its officers have not been selected and trained according to the criteria of an army of a democracy. Taking over the "internal leadership" by the Bundeswehr may help remedy this. But such a revision faces the problem of the large numbers and of the time factor. The NVA now includes about 66,000 "military cadres," meaning career and long-term soldiers, among them about 330 generals and admirals (the more than three times larger Bundeswehr has only 220 general officers).

2. One precondition for acceptance into the service of the FRG after the unification of the countries, no matter what the form in which the NVA is transferred to a new military organization, would have to include political examination of the personnel regarding former behavior, military suitability and democratic reliability. Accordingly, Federal Defense Minister Stoltenberg has recommended to GDR Minister Eppelmann that a "personnel consultative committee" modeled on the FRG be established by the Bundeswehr. This committee would have to examine all higher officers as regards their relationship with the SED, with the GDR state security service and with the Soviet armed forces, including the secret

intelligence and security services of the Soviet Union, the KGB and GRU. Further, one would have to examine what personal connections the individual officers have with the authorities and with Warsaw Pact personnel. This would be an extremely difficult, delicate and, as regards the possibilities of success, risky task.

For that reason the practical conclusion is that the majority of the 66,000 career and long-term soldiers of the NVA should be discharged as quickly as possible, among them primarily general officers and commanders, as well as high staff officers. Minister Eppelmann does not seem prepared to do this or to conduct a personnel review through a consultative committee. He has stated in talks that the NVA has already "legitimized itself democratically" by having stood "on the side of the people in the critical phase" in October 1989, by having refused, for example in Leipzig, to deploy troops against demonstrators. The more detailed circumstances of this refusal are not known in Bonn. As a symbol for this "new democratic legitimacy" the NVA Minister Eppelmann wanted to found a new order of merit for the GDR which he had intended to name the "Stauffenberg Order." This attempt to identify the NVA with the tradition of 20 July 1944, and thus with the resistance by democratically-minded officers against the dictatorship of national socialism, was decisively rejected in Bonn.

3. Independent of the necessary self-purification process and an indispensable conversion of the former ideological party-political communist indoctrination as a precondition for a new legitimization, there arises the problem of the overall size of the future German Armed Forces within the framework of a troop limitation agreement in Europe and from the aspect of unification of the states. The Soviet Union has declared that in the future the NVA troop strength would have to be added to that of the Bundeswehr. According to the present level on paper, that would result in about 600,000 men: About 470,000 men in the Bundeswehr, plus about 130,000 men in the NVA, as alleged by Minister Eppelmann on 2 June in his speech to the commanders of the NVA (the actual strength of the NVA is likely to be no more than 100,000 men, probably fewer, due to the many resignations and detachments of soldiers for civilian and social services). For the Bundeswehr, the present plans call for 420,000 men, who in the course of the troop reductions in Europe would be further reduced to about 400,000 men. Minister Eppelmann has temporarily foreseen 100,000 men for the NVA as this strength. However, the result of the Vienna talks cannot be such that in the future the combined German armed forces would be stronger than the Bundeswehr after its intended personnel reduction. According to the outcome of the Negotiations on Conventional Forces in Europe, the lower limit for troop strength, being the minimum size for a sensible military structure, is to be set at 370,000 men.

Thus, a competitive situation is arising between the two armies which in the future will have to be nourished from one budget, whose funds essentially come from tax revenue in the present FRG, until a proportional balance

will gradually develop. Minister Eppelmann only wants to shave off an insignificant part of the core strength of the 66,000 NVA "military cadres" and keep about 60,000 of them. This would mean that the structure of the NVA and with it the entire command personnel, selected according to political criteria, would remain in service and the German Armed Forces would be correspondingly burdened. Since general military service must also be retained after reunification with the area of the former GDR, this core would be much too large and would be at the expense of Bundeswehr personnel. But the NVA has clearly shown a tendency to assert itself in this transition phase with the largest possible troop strength and the old personnel, in order to save its own structure in negotiations with the Bundeswehr.

According to Bonn's concept, on the other hand, the NVA would have to yield to a territorial defense group in the Bundeswehr on the former GDR territory, which in any event should not have more than 50,000 to 70,000, preferably only between 30,000 and 50,000 men, including conscripts at approximately a 50:50 ratio between conscripts and career and long-term soldiers. This means that only about 20,000 to 30,000 of the longer service personnel could be selected from GDR manpower.

But as long as the GDR defense minister represents the professional interest of the "military cadres" of the NVA for the strongest possible structural reserve, a rational and militarily superior structure with a sensible personnel policy cannot be achieved. However, the interests of national policy and alliance policy give priority to the Bundeswehr. This is all the more necessary since two German armies cannot exist on the territory of an all-German state. The GDR minister's concept of subordinating the NVA, at least for a transitional period, to the political authority of the five new Laender instead of the authority of the German Government as foreseen in the basic law for the Federal Armed Forces, has prompted Federal Minister Stoltenberg to establish the motto for the commanders of the Bundeswehr: One nation, one parliament, one government, one army.

#### Disorganization, Low Morale Evident in NVA

90GE0200A West Berlin DER TAGESSPIEGEL  
in German 7 Jun 90 p 15

[Article by Michael Backfish: "After the Drill the Big Void"]

[Text] The deputy regiment commander stared into space as if searching for something that was miles away. It was only partly due to the unusually muggy May heat that he started sweating so much. A simple question made him embarrassed: How many soldiers are there in his regiment? Lieutenant Colonel Gassan had to help out.

The "duty officer" got the numbers together after a few minutes: The Rudolf Gyptner artillery regiment in Lehnitz, a village a good 20 km north of Berlin, has 400 men,

an attached battalion consists of 60 and a battery of 40 men. A total of 500 soldiers.

"Since the turnaround no one really knows exactly any more," says Lt. Col. Gassan apologetically. The "turn-around," the dismissal of the Honecker regime forced by the people, has also deeply shaken the structure of the National People's Army [NVA] in Lehnitz: Reservists are no longer called up at all; 120 out of 260 conscripts have applied for civilian service, more than 160 soldiers are being dismissed prematurely because of the reduction of the military service, and 60 NCO's can leave a year earlier than planned because their tours of duty have been cut short.

A shrunken little troop, like the whole NVA. The latter shrank in one year from 175,000 to 135,000 men. And Disarmament Minister Eppelmann is contemplating a further reduction: there has recently been talk of 100,000 men in two, three years.

Discipline and combat strength are also declining with the numerical strength, for the more than 100 recruits who were called up in May in Lehnitz—not quite 25,000 all across the GDR—no longer have any thoughts of standing at attention. Most find the pop-up-target shooting that awaits them during the 14-day basic training to be nothing but a farce. "What is the purpose of it all: Why not abolish conscription and introduce a professional army," asks 20-year-old Burkhard J.; 22-year-old Olaf H. perceives that at most it makes sense for protecting his wife. "We don't have an enemy image any more."

And the ties to the alliance partner are becoming increasingly weaker. "Our Relationship with the Soviet Union—a Touchstone for Revolutionary Action" it still says in big red letters a few meters behind the guard post—boards with yesterday's slogans. Because the approximately 380,000 Red Army soldiers who are on GDR territory hardly want any ties. "They should go home; then our housing problems would be solved," grins one of the new recruits.

The comrades-in-arms of old now serve only as the target for jokes. "In order to get to the schnapps, they sell glass vases, army tableware, even the gun, if need be," jokes Olaf H.

All respect is gone. Even at the finest address for officer training, the Friedrich Engels Military Academy in Dresden, a critical distance can be perceived. "The Soviet Union cannot maintain its territorial status quo," judges a leading member of the teaching staff with a view to the union-tired Baltic states.

In the opinion of Colonel Erich Hocke, head of the department of Political Science at the Dresden elite school, the GDR will "gradually detach itself from the Warsaw pact" over the next two to three years. Possible stages: Leaving the integrated air defense system and the allied Baltic fleets. During his visit to Moscow in April,

GDR Premier de Maiziere already asked for a cancellation of delivery contracts for armament and equipment.

Nevertheless: For a not precisely defined "limited time" Hocke envisions NVA troops on GDR territory which are "not NATO forces and also not dedicated to NATO." Everything else is up in the air of a "European security system." This oft-repeated magic word for a new order after the East-West conflict must still be strategically worked out over the next few months, however.

Such mental gymnastics are light years away for the recruits in Lehnitz. The financial cares are much closer. They get 300 marks pay a month, plus 4.50 marks basic subsistence allowance a day. Previously, they earned about 1,000 marks as a truck driver, 1,700 as a hydraulics mechanic and as a bricklayer—according to 22-year-old Frank E.—as much as 3,000 marks a month. Married people are no better paid; the wife gets a few hundred marks more. "If my wife were laid off, I'd be out of here tomorrow," cracks Olaf H.

The women, the house, the car. At the end of military service, only private life matters. Another result of the "turnaround": Only people from the area surrounding each regiment are called up any more; anyone who wants to go home after 5 p.m. can do so. Almost everyone does.

"Not a minute longer than necessary" is the NVA motto after the years of major drills. On 5 March the Lehnitz conscripts forced through a shift regulation such as other armies can only dream about: Anyone who has 14 days of guard duty, gets a week off. One week of guard duty means a maximum of 45 hours.

There are other advantages as well: 19-year-old Thomas W., for example, is getting his driver's license free. "The normal cost I would have to pay privately is about 1,000 marks."

That is not enough for his colleague Karl F. "who wants to study." He has applied for civilian duty, and in two weeks he will only see the regiment from the outside. And he readily admits that he is speculating that he does not have to assume his duties.

His prospects are good. According to the East Berlin Ministry For Labor and Social Affairs, 18,500 civilian servicemen started work in May. According to official information, there are no more positions at the moment.

Some noncommissioned officers in Lehnitz complain about such "opportunism" and "time-wasting mentality." A little longing for the good old discipline is heard along with 21-year-old Andre H.'s statement: "The whole outfit is falling asleep; we have no collective spirit any more."

In fact: There is not much collectiveness any more. Once in a while a little group happens to wander over to the soccer field, where dandelions and broom are in bloom. The National People's Army, once the talent pool for the

Golden Teams of the worker and peasant state, is losing the likeable fighting spirit of its leisure time soccer players.

Not only the new laxness but the furious pace of the German-German unification makes many officers insecure. NCO Andre H. thinks the "now-or-never-mood" is a bit fishy. Major Lemcke warns against the "selling out" of the GDR. "Not everything was bad," says Lemcke and refers to the job security, the paid sick leave, the child care centers and the year-long baby leave. And he points up what is paralyzing many of this countrymen between Rostock and Dresden: "The subliminal fear of becoming the poor house of the FRG."

That latent fear of being crushed by capitalism after Stalinism—even Lt. Col. Gassan knows it. He has been with the NVA for 16 years. "Sixteen years of senseless acts of power," the 31-year-old says. The trauma of the constant NATO threat went deep. Even at home, Gassan always had to be prepared; his subconscious worked like clockwork. "They wanted to keep us so busy that we couldn't look over the fence." Gassan has only bitterness left for the former SED [Socialist Unity Party of Germany] colonel.

Worlds came crashing down. And over and over again the nagging self-doubt, the nerve-fraying question: "Was all that for nothing?"

Gassan recognized that yesterday's enemy images were "deliberate deception." But the mistrust of the "merciless society of the GDR" remains. "We haven't learned to fight our way ahead," says the career soldier.

The fear of losing his identity, it appears, is Gassan's new internal enemy. "I couldn't imagine joining the Bundeswehr tomorrow."

## HUNGARY

### Defense Ministry Spokesman Interviewed on Arms Trade

25000754C Budapest MAGYAR HIRLAP in Hungarian  
20 Jun 90 pp 1, 4

[Interview with Colonel Gyorgy Keleti, Ministry of Defense spokesman, by Katalin Karcagi; place and date not given: "Our Trading With Arms Is Strictly Controlled; Tanks, Airplanes for Sale"]

[Text] Those who believed that they could obtain decommissioned tanks and airplanes from the Honved Forces for pennies made a miscalculation. From now on the Defense Ministry will request a security deposit, and it will negotiate only with serious foreign partners. Since February we have been unable to sell weapons in crisis zones, and military goods may be sold in peaceful regions only on the basis of a permit. The committee which decides whether to grant permits has not been in session since the government decree of February 1990

was published, according to the best knowledge of Colonel Gyorgy Keleti, defense ministry spokesman.

[Karcagi] The other day they decommissioned an air defense artillery regiment in Miskolc. What is the fate of the weapons?

[Keleti] Weapons which become surplus as a result of personnel and arms reductions in the Hungarian Honved Forces will be placed in a warehouse awaiting sale. It is not certain, of course, that we will sell these as weapons. Our towing vehicles, for example, could be purchased by forestry units, but we also sell vehicles to civilians. Or the Byproducts and Scrap Material Collection Trust [MEH] enterprise could buy up the weapons and melt them down, thus the material of which these weapons are made could be reused. But thus far they have not taken over a single tank; they purchased items six or eight years ago with a thinner armor. The MEH did not purchase the MiG-21 airplanes either, because decomposing the metal alloy is so complex that it is not worth the effort for the enterprise.

[Karcagi] What are you doing with those airplanes?

[Keleti] There were examples for successful utilization of these airplanes, and also for the opposite. The unsuccessful attempt includes the fact that for years, at the request of councils, so-called military technology parks were established, and we placed quite a few MiG-21's in these parks. But now they are requesting that we remove them, partly because their exhibit is found to be too combative, and in part because in many places the machines were treated as junk and were vandalized. On the other hand, a more successful venture of ours was the offering of materiel to commercial enterprises. Some great waves were generated around this action as a result of an article in THE WASHINGTON POST, the contents of which were later denied by the former director of the FBI [CIA chief William Webster]. We have talked about this sale before: At a press conference last year we stated that we are selling decommissioned MiG-21's in the West, and purchasing medical instruments using the selling price. These are medical instruments which can be obtained only for foreign exchange. We intend to equip the Honved Hospital of Budapest with these. Four MiG-21 airplanes reached the United States indeed, but since the American businessman who wanted to place these airplanes in a museum was unable to obtain an import permit, he can keep the planes only on private property. Depending on their condition they paid between \$90,000 and \$150,000 for these airplanes, a new MiG-29 airplane—far more modern, of course—costs between \$20 million and \$22 million. We may use component parts that are still in relatively good condition as spare parts at a later date.

[Karcagi] What will happen to the tanks the MEH does not accept, and which cannot be placed in warehouses anymore, and which are not wanted even by museums?

[Keleti] This is truly a great concern. But it is worth mentioning that a great number of foreign inquiries are

arriving. Our chief division which deals with the sale of materiel decided to request a security deposit from interested persons to see whether they are really seriously interested. In general, they believe that they can acquire materiel from the Honved Forces for pennies. Storing tanks is also difficult because decommissioned tanks must be conserved; we may sell them some day perhaps. But we must remove their guns, otherwise our Western partners could say that we are not keeping our word, because these units may be deployed at any time.

[Karcagi] But according to the February Council of Ministers decree concerning the sale of weapons, tanks may be sold with their guns, provided that a license is granted.

[Keleti] The licensing committee has not met even once since the beginning of this year, since the decree was published.

[Karcagi] Would this mean that since then we have not sold any weapons?

[Keleti] Not to my knowledge. It is not the committee's function to reexamine earlier contracts, of course.

[Karcagi] The decree according to which materiel cannot be sold in crisis zones, to countries mixed up in armed conflict, may be understood to say that henceforth we cannot sell weapons even with a license to Angola, Cambodia, and Ethiopia, for example.

[Keleti] I would not mention countries.

[Karcagi] But we are talking about countries engaged in armed conflict.

[Keleti] We certainly do not sell to those countries. To which countries do we sell, then? In my view this committee includes, in addition to the interior, defense, and commerce ministries, the representative from the foreign ministry, because he is able to judge a dangerous progression in a given region. And otherwise, arms trading also involves discretion, even if it takes place fully within the law, and if the public has trust in the new system, in the fact that the representatives of the new system abide by the law, I believe that not so much should be written about this subject. Let us not forget that in Eastern countries, and in other places, there exist decommissioned MiG-21's, and if they transact business there more quietly, it is possible that buyers will make their purchases there.

[Karcagi] This is not primarily a matter of confidence. In the Western world, for instance in the Federal Republic of Germany, Austria, and the United States, the arms sales scandals which have exploded prove that strict rules are of no use; they can be circumvented. A few days ago, for example, newspapers reported that Harkany had become a transit station; Yugoslavian authorities confiscated Hungarian-origin submachine guns presumably destined for Kosovo.

[Keleti] It is possible that we were a transit country for the darkest sphere of international arms trade, but it is certain that the weapons were not forwarded with official Hungarian involvement.

[Karcagi] But still, how can it be avoided that, in a manner similar to drug trafficking, our country will become a favorite transit route for arms trade? The Soviet ANT scandal also proves that they prefer to strike arms deals in third countries.

[Keleti] Unfortunately, wherever drugs appear, the weapons also appear. Only the customs service and the police are able to prevent Hungary from becoming a transit station; this is not the army's role. The fact that arms deals are struck in third countries is customary. But it is important that the agent who takes out his operating license in Hungary is regularly checked according to the legal provisions we mentioned.

[Karcagi] How much does the ministry receive from the price of materiel sold?

[Keleti] The enterprise brokerage fee amounts to between 1.5 and five percent; the rest belongs to the Ministry. If for no other reason, there is a need to sell materiel withdrawn from the system because the Defense Ministry budget this year amounts to 40 billion forints. We receive 35.4 billion forints from central resources, and we must make up the rest. Two or three years ago all we had to produce was between 1.6 and 1.9 billion forints. Previously the army did not sell from its own inventory. Material was shipped abroad, of course, but this constituted so-called "internationalist aid" [as published]. These were not modern weapons, and they were not shipped in large quantities. I recall when [former Defense Minister] Lajos Czinege travelled to Cuba, he carried with him enough hand weapons to arm an entire sub-unit. We probably also shipped weapons to Vietnam and to other countries.

[Karcagi] But still, how large was that aid?

[Keleti] I do not have accurate knowledge of this. I do not know what the generals of 10 or 20 years ago decided to do.

[Karcagi] But there obviously are documents concerning this matter.

[Keleti] I went looking for them, but I could not find a trace of such documents. I was only able to talk to people who were assigned to this function during the past four or five years. Most likely there are top secret documents, but it is difficult to obtain access to them.

[Karcagi] The ministry has no review [authority] at all over enterprise arms sales?

[Keleti] We have nothing to do with that, therefore we keep records only of our own sales.

[Karcagi] Is it necessary to ask permission from the Soviet Union for the sale of Soviet-made materiel?

[Keleti] Of course. When we buy a certain type of weapon from the Soviet Union the basic agreement includes a provision according to which we cannot pass those weapons on. In other words, we must obtain permission if we offer such weapons for sale to an enterprise. But if we purchase the manufacturing rights to such weapons, such as the AK submachine gun, and if we sell that abroad, we still require the permission of the party which sold us the license [to manufacture].

**Air Defense Radio Locators' Situation Discussed**  
25000754D Budapest MAGYAR HIRLAP in Hungarian  
25 Jun 90 p 5

[Interview with Colonel Attila Farkas, chief of radio technology, and Colonel Lajos Csomos, deputy chief of radio technology, Hungarian Honved Forces, by P. Gy.; place and date not given: "Dismantled Locators; Do the 'Eyes' of Air Defenses See Everything?"]

[Text] Recently the persons in authority at the Hungarian Honved Forces were held to account in Miskolc: Could they tell why air defense facilities were dismantled in the area, thus weakening the air defenses of the area? Could it be that this city and the neighboring industrial plants are no longer important to the country?

[Farkas] The decision to do away with these stations was forced upon us. Reductions in force and expenditures forced us to make this decision. The reason for dismantling these locators in Miskolc can be found in the fact that this caused the least blow to the country's entire radio technology network.... It is not true that the leaders of Miskolc asked on behalf of the populace whether we had given up that city. We did not surrender it, but we had to take a step in this difficult situation.

[P. Gy.] It is obvious that after the Soviet troop withdrawal more tasks will be assigned to the Hungarian Honved Forces.

[Farkas] Look, even thus far the Hungarian party has been responsible for the country's air defenses, and within that the radio locator control of the airspace. In other words, that certain all-around defense system which secured the country's airspace has always been developed, even though to a certain extent the two air defense [systems] complement each other. Along with all of this, this is not the primary reason why we find ourselves in a difficult situation.

[Csomos] The greatest concern is that the rapid development of aviation technology also demands the development of the radio locator equipment inventory. Aviation, including civil aviation, is developing at a very rapid pace, the airspace is more and more congested, and the number of planes flying securely at low altitudes and at high speeds is ever increasing; at the same time, the airplanes' radio locator reflection surface is becoming smaller and smaller, and it is becoming more difficult to locate these airplanes.... In order to be competitive we

should be developing at the same pace, if we had the needed finances, of course....

[P. Gy.] If we left the Warsaw Pact, we would be a country outside of the blocs. Then we obviously would not have to be concerned this much with development.

[Farkas] Of course we would have to be concerned with development. Neutral countries also guard their own airspace. Both Switzerland and Austria have developed air defense networks, and they attend to the need for continuous development. I am convinced that we must follow the same path. But in order for anything to happen in this regard we need a political decision. The government must decide whether it wants to have information about what is taking place above our heads, in the country's airspace. Development is unavoidable if they want such information, because we cannot go too far with the present technical level. And at that point I have not mentioned the effect of a reduced enlisted force on our branch of weaponry. Military duty reduced to 12 months is insufficient for enlisted men to acquire the needed knowledge at a level of proficiency.

[P. Gy.] What is the solution then?

[Farkas] I know only the principle which provides a solution: We should employ more professional officers, noncommissioned officers, and civilian employees than we have at present; their professional knowledge could provide a guarantee. But this is theory only, because in the course of the years a significant part of the professional staff has changed careers. They have chosen civilian trades where the pay is higher, and at the same time they need not be on constant alert. That is, this branch of the military counts as a fighting unit even in times of peace; these soldiers do the same thing they would do in case of war. This field is not really attractive, we can only count on the possessed.

[P. Gy.] Why is the same kind of preparedness needed in peacetime as in times of war?

[Farkas] The country's airspace must be defended not only against fighter planes, but against criminals, drug dealers, and persons who deal in human lives, and against people who fly illegally across the border. Unfortunately, we must also count on these in times of peace.

[Csomos] It is yet another question that the function of this branch of the military changes to a certain extent in times of peace. In times like this, weapons will not talk based on our indications. Diplomats must take steps instead. In times of peace, radio locators provide data for diplomats. The goal of Hungarian air defenses cannot be to shoot down anyone by claiming that they are defending the border, if the airspace is entered without offensive intent. Let us remember the international outrage that followed the downing of the South Korean passenger plane, or when Czechoslovak air defenses shot down an Austrian helicopter 20 years ago.... Quite naturally, for this reason we must obtain accurate and full

information about flights into our airspace. This, however, requires development, money, regrouping, retraining.

[Farkas] And a political decision. At the moment, however, we have a dispute even with the Ministry of Agriculture, because an appropriate land area is needed for the establishment of locators (each unit like this

requires between 20 and 30 hectares of land), and we do not receive from them suitable places in every instance. A locator deployed in a deep area, or in a swampy, wet part is worthless, even though we would be the "eyes" of the air defenses. But what kind of eyes are those which do not see? In other words, until such time that this certain political decision is reached, we are unable to take a single step further....

## CZECHOSLOVAKIA

### Battle Against Inflation Viewed

90CH0269A Prague HOSPODARSKE NOVINY  
in Czech 27 Jun 90 p 5

[Article by Eng. Emanuel Sip, Federal Price Office: "Inflation and How To Fight It"]

[Text] The pandemonium of the election campaign has calmed down. This is the time, then, to return to matters that remained unresolved during the somewhat hectic period of the government of national understanding. One of these not completely clear issues concerns the comprehensive deregulation of prices that is supposed to take place on 1 January 1991.

This is currently a very pressing problem that is being discussed frequently from many points of view. These discussions fall roughly into two areas: The first, to what extent is the Czechoslovak economy immune to potential inflationary trends, and second, how will the economy react to the above mentioned price liberalization.

### Our Prospects

Let us now analyze the prospects for the economy in relation to the probability that inflation will be intense. The first possible type of inflation, which has been related to deficit financing practiced by a state and that state's excessive indebtedness, is probably not a direct threat to us. Even under the previous regime, the state at least officially attempted to achieve a balanced budget. Macroeconomists in government positions are correctly arguing for a budget surplus and we are hearing numerous resolutions concerning a sharp cutback in government expenditures. We have been cautious about our foreign debt, so we are probably all right in this area.

The situation is more complex when it comes to inflation triggered by excessive wage growth. We have been successful so far in regulating wage growth, although there have been some difficulties (dealing with linked percentage wage increases is a problem). Pressure on wages has so far not been too evident. This could change, however, if the standard of living shows signs of declining.

The third type of inflation, cost inflation, has many areas of opportunity in Czechoslovakia, and unforeseen potential. As a number of solid studies have shown, Czechoslovakia is a highly monopolized economy. Monopoly situations under our conditions can correctly be viewed as functional and fully reflective of remaining totalitarian relationships. As such they have a adverse impact on the political sphere. The numbers are alarming. The average size of an industrial enterprise here is 1,700 employees while worldwide the figure is 100-200 employees. Almost 40 percent of the industrial sectors are concentrated into fewer than four enterprises. The economy is highly closed; competition from imports is

expensive and inadequate. Signs of monopolistic behavior occur daily and everywhere and are not punishable in any way. So far we are dealing with this only by randomly enforcing limitations in gross output, strict regionalization of sales, forced substitution, various contingency deals, and by discriminating among the more obedient and less obedient customers. Enterprises in the meantime show a marked tendency to reflect all of their costs in their prices.

Now we can attempt to answer the second question, that is what will the reaction be, under these conditions, to the general price deregulation scheduled for 1 January 1991. One can come at the answer from several perspectives.

First of all, deregulation will eliminate the current rigidity and bureaucratic arbitrariness of pricing. The current, nonfunctional proportions (in other words imbalance) in relative prices will change. Changes are already evident. This leaves the question: In what direction? Will the resulting relative prices actually be any closer to economic rationality?

The Czechoslovak economy which, in the past, has had an autarkic orientation, is characterized among other things by the existence of ongoing, self-perpetuating, and closed "supplier-customer" cycles. The typical example is the famous "capital triangle"—fuel and power, metallurgy, heavy engineering. The assumption that just such a cycle could be the starting point of a cost inflation spiral is more than possible. Also to be considered is the monopoly position of certain entities. Price deregulation represents a desirable softening of the environment for a monopoly enterprise, because under these conditions it can include even irrational costs in its prices. Attention then shifts to the consumer who strengthens his demands for wage increases, leading to a wage price spiral. Rapid inflation can be the result.

The negative consequences of this kind of inflation are numerous and well documented. They include the loss of information in prices, the impossibility of formulating long term strategies, a more random evolution in enterprise revenues and/or increasing tendencies to accumulate inputs. In addition, declining living standards begin a unique downward spiral: A decline in purchasing power leads to reduced motivation to work, disorder and strikes, which in turn reduce economic efficiency, leading to a further decline in purchasing power. Polish economic development in the 1980's is a clear illustration of this.

### Limits of Monetary Policy

Classical monetary theory frequently prescribes a single effective cure for inflation, namely stopping the issuance of money into the economy. It is an effective technique but has some problems: It requires a competitive environment. If a monopoly firm fails and there is no way to effectively replace its output the state has the choice of allowing a chain reaction failure of related firms or the

old familiar deficit financing, not only in capital investment, but in wages and social support payments. A state with the most well-intentioned monetary objectives can therefore find itself ultimately in the position of savior of sick dinosaurs, just as its totalitarian predecessor.

Arguments frequently cite developments in Vietnam and Poland, where governments have succeeded in reducing inflation to Czechoslovak levels. These examples are too recent and come on the heels of roughly a decade of high inflation. In addition, both countries are lacking any signs of economic revival. A recurrence of inflation is still possible. This has been the case in Argentina where strict monetary policies put in place in 1989 completely eradicated hyperinflation (inflation was just five percent in October 1989). But by the end of 1989 increasing wage pressures and rumors of local currency devaluation led to new inflation of several hundred percent.

Under conditions of runaway inflation (or hyperinflation) there is no way that a state can avoid sooner or later using deficit financing to fund its operations. This is caused among other things by the ongoing devaluation of the income streams that finance the state budget.

After some delay, with the appearance of a truly competitive environment, hyperinflation should gradually stop. The question is how long it will take and how many years of development are lost in the process.

#### Antimonopoly Policy

An antiinflation policy in this country should therefore primarily be an antimonopoly policy. Sufficient competition is the decisive element that allows the state to behave relatively independently of specific, but mainly irreplaceable economic entities. This is the most effective way to help implement the otherwise correct principles of budget surpluses and restrictive financial policy. It also makes it possible to prevent the open inflation percentage (which is inevitable to a certain extent during economic transformation) from exceeding tolerable limits.

This brings us to the question of the interaction and timing of reform steps. Price deregulation and an antimonopoly policy are both essential steps. We will not be able to create a market without both of them. An antimonopoly policy without price deregulation is only a repeat of the old centralism in a new form. Price deregulation alone is a stand alone policy that represents the path to the hell of wild, uncontrollable inflation. For a number of monopoly lobbies, by the way, this might be very nice especially in the area of primary resources and labor intensive products (agriculture). The monopolies, however, must monitor the composition of complex secondary products (machine tools) and products dependent on imported resources. The high prices of these items resulting from padded cost figures mean that there will be no demand for them either abroad or at home. In an inflationary environment not only households, but also enterprises live from one day to the next.

There is no question of putting off price deregulation to an undetermined future time, as suggested by a number of conservative economists. Today it is possible to deregulate prices in areas where there is adequate competition (such as for services). A natural source of deregulation, however, is the private sector itself which both at home and abroad operates almost exclusively in freely established prices. In the case of our classic state "dinosaurs", deregulation must necessarily precede demonopolization, the formation of a basic competitive environment. There are, however, a number of ways to accomplish this.

In addition to eliminating the remaining administrative complexes and supporting domestic entrepreneurship it would be desirable as well to encourage both the sale of domestic production facilities to foreign entities and direct foreign entrepreneurship. Neither joint ventures nor rental agreements can replace the direct operation of effective foreign capital, secured for example by the sale of controlling blocks of stock in selected enterprises. Foreign capital in conjunction with the relatively low cost, qualified and creative domestic work force would not need to get involved in the domestic "supplier-customer" resource games; it could get the requisite inputs elsewhere. This opens the possibility of finding a natural developmental core of domestic products that are relatively immune to inflationary pressures. Moreover, Only this approach can assure the state treasury of the funds needed to proceed with neglected public works; building a "business infrastructure" of highways, airports, high speed rail systems, communications networks and other amenities to serve business and all of society.

At this point, though, we must confront certain traditional prejudices. One of these are fears of "selling out the economy". One must understand that in a modern economy the question is not who, in a given country, owns the capital; the critical question is how that capital is used, the utility it brings to all participants. Moreover, it is not a question of selling at any price, but of sale at a competitive, auction price. Finally this would not involve the sale of failing, but rather of prosperous companies. We should not move too fast on this. It is important to maintain an atmosphere of at least relative stability. If we get mired in an economy of runaway inflation and allow our end products to be compromised we will still have to sell state enterprises, but as beggars rather than choosers.

We also have to get beyond biases in favor of "popular capitalism". Even the most highly perfected or original plans for the sale or distribution of stocks to enterprise employees or the general public cannot be viewed as a priority objective of economic development. These plans require functional and operational management and mobile capital. Firms controlled by thousands of small shareholders will tend to behave rather like debating clubs than aggressive competitors.

Given these considerations one asks the question again about the timing of price deregulation and economic

demonopolization. What would this mean in the context of current liberalization objectives? If we really want to deregulate all prices as of 1 January 1991 we should make sure that by 31 October of this year at the latest the essential foundation of a competitive environment exists in the economy. This will require, among other things, cooperation between the privatization office and the antimonopoly office (the current Federal Price Office). It will require an uncompromising approach in areas where:

- Remaining monopolistic structures can be immediately dismantled, without regard for "self-financing";
- Firms can be sold directly to foreign owners (especially for final, more complicated, and advanced products);
- Domestic competition is adequate;
- There is competition from imports (operating or emergency foreign currency funds should be made available to support this).

Last, but not least, work must be speeded up on a law to protect economic competition and on a law permitting state price monitoring, because a 1 January 1991 implementation date is probably too late.

Under conditions of "sensibly" adequate economic competition the threat of extensive inflation recedes. We can probably permit some inflation in the national economy over the short term. If we do so, however, it must be with one eye on the light at the end of the inflationary tunnel.

#### **Economic Reform Program Risks Discussed**

*90CH0269B Prague HOSPODARSKE NOVINY  
in Czech 27 Jun 90 p 3*

[Article by Eng. Josef Sejak, candidate for doctor of science (CSc.) and Eng. Petr Soukup, CSc., Czechoslovak Academy of Sciences [CSAV] Economics Institute: "Risks of the Chosen Path: On the Economic Reform Program"]

[Text] On 14 May the Federal Government approved an accelerated economic reform program under which, among other things, there is to be a general price deregulation. In this article we want to call attention to certain risks and probable negative consequences of this autocratically approved decision concerning price liberalization (considered as the core of economic reform) and of the unilateral application of a restrictive macroeconomic (monetary and fiscal) policy.

The government has pushed through the concept of an accelerated one-time deregulation of internal and external prices as of 1 January 1991. The necessity of deregulated prices for the successful functioning of a market mechanism is completely clear. As a theoretical matter, however, the deregulation of all prices over a period of about six months is open to question. It is also not very responsible. There are many serious arguments against such rapid deregulation. This plan to deregulate

prices, moreover, will take effect at the moment when we are experiencing a significant increase in the prices of imported inputs (if we retain the exchange rate of Kcs17 per dollar this "imported inflation", i.e. inflation from our external relations, will be evident, according to Federal Price Office estimates, in an increase of almost 13 percent in wholesale prices; if we devalue to an exchange rate of Kcs24 per dollar the wholesale price increases are projected at almost 30 percent).

#### **Higher Inflation Level**

This plan calls for deregulating prices in an economy of shortages that suffers from chronic disequilibrium in all its markets, a severely monopolized economy where specific, usually industrial goods are frequently produced by one, two, or three manufacturers (there are a number of products that are neither produced nor imported because of a lack of hard currency). Our economy operates in a "vicious circle" of technical obsolescence of most of its products and an inability to generate adequate hard currency to fund technological development.

All of these facts cast doubt on the feasibility of rapid price deregulation and condemn it to failure, in the form of runaway inflation, social unrest, and the consequent failure of the entire economic reform. A rapid one-time price deregulation will result only in producers passing through higher input costs to consumers in their prices. In addition, the Czechoslovak economy will face imported inflation beginning next year on the order of Kcs70-80 billion, and perhaps much higher (increases in wholesale prices of imported goods resulting from a shift to freely convertible currencies in trade among CEMA countries may reach, at current exchange rates, approximately Kcs120 billion). A one-time deregulation in combination with this external shock will transform the current so-called suppressed, or inertial inflation (estimated currently at about five percent) into an open process that will have to be dealt with.

In this situation what role could be played by the restrictive monetary and fiscal policy that the government wants to use as its primary mechanism to stabilize price levels? Can a macroeconomic policy of restricting aggregate demand actually keep prices down and restrain inflation in a seriously unbalanced economy in which every producer is dependent on one or more monopoly suppliers. Or will it result, given continued shortages and markets organized monopolistically, only in deepening inflation, the entrenchment of serious stagnation tendencies. The experiences of mature market economies in the 1970s (the period of the crude oil shocks) clearly indicate that a restrictive monetary and fiscal policy is ineffective because it only fosters and deepens stagnation (unemployment) without preventing higher inflation. The famous American economist, Arthur Okun, in his best known work summarizes the experience of the United States in the 1970's this way, "With monetary and fiscal instruments that affect aggregate demand economic policy can maintain in the economy either the price level

or output levels (and employment), but not both." (Arthur M. Okun, *Prices and Quantities: A Macroeconomic Analysis*. The Brookings Institution, Washington, D.C., 1981. pp 353-354.) In the preface to this work it is also emphasized that "restrictive macroeconomic policy has the apparently paradoxical effect of reducing both production and the growth of unemployment, but has little impact on inflation."

In this context, and given the particular (deformed) starting point of our economy, it is our opinion that the plan for a one-time price deregulation accompanied by restrictive fiscal and monetary policies as approved by the Federal Government is, given the expected external shock, a prescription for going to hell. It will open the inflation valve while simultaneously deepening the trend to stagnation and increased unemployment. The first steps have already been taken, in the form of the substantial devaluation of the Czechoslovak koruna in January and the preparation of the so-called central price adjustment, which among other things will result in significant increases in the prices of food and certain services—despite the proclaimed uniform, across the board compensation, which appears to be principled but is in reality unfair.

What impacts will price deregulation have that are of importance for the functioning of the economic mechanism, i.e. for the behavior of economic entities? There will probably be a decline in consumer demand, as well as a loss of trust in any other radical reform program "at their expense". From the enterprise viewpoint this first step in resolving the price problem looks like the traditional administrative price restructurings of past years which have a bad reputation and have been severely criticized. This plan only recognizes them officially, and the new price levels only give the stamp of approval to actual enterprise costs. As a result most of them will believe more strongly that, paradoxically, in the future their monopolistic position will be strengthened by this price deregulation.

#### Significant Currency Undervaluation

In its resolution to accelerate radical economic reform the government approved not only the one-time deregulation of all domestic prices, but also the deregulation of external prices. In particular it decided to deregulate exchange rates as of 1 January 1991. The transition to a market rate will initially certainly mean a further painful koruna devaluation. A devaluation policy always has, in addition to certain positives such as supporting exports, significant negative effects that are magnified in an economy of shortages. Just as happened with the devaluation of this past January, so every devaluation only distances the exchange rate of the Czechoslovak koruna from parity with its purchasing power (the exchange rate resulting from comparative price levels). This in turn means increasingly sharp undervaluation of Czechoslovak currency.

In this context it is appropriate to cite the opinion of Dr. A. Rasin, the first Minister of Finance of the Czechoslovak Republic: "An undervalued currency is a way to rob the state with the undervalued currency... to encourage senseless, unsystematic imports without regard for domestic demand.... With such undervaluation, exporters search for sectors in which production costs do not play a significant role. The tendency is to export raw materials and semifinished goods rather than finished goods, because in a country with an undervalued currency production costs will rise in all areas where production depends on imports of all or some raw materials. This leads us to the second way that prices increase. A reduction in the international exchange rate of a currency acts as a protective duty at home, restricts foreign imports, allowing domestic producers to increase prices for their products." (Dr. A. Rasin. *My Financial Plan*. Prague Printing Company, 1920. pp 31-32.)

To the views of Dr. Rasin we can only add that they describe exactly the results of the January devaluation (deterioration of domestic supplier-customer relations and raw materials shortages for processing industries) and that the same results can be expected from any future devaluations: "The international exchange rate... is a psychological motivator to increase wages, salaries, business, and commercial profits thereby leading to increased revenues, but also increased prices." (Dr. A. Rasin. *My Financial Plan*. Prague Printing Company, 1920. pp 31-32.)

It is therefore necessary to agree with the current officially prohibited proposals that suggest that economic policy should seek to support the exchange rate of the Czechoslovak koruna, i.e. to maintain a relatively stable relationship between the koruna and the so-called hard currencies. To the extent that plans are made for further devaluations that would certainly move the koruna away from purchasing power parity, the logic must go something like this: "if ...the exchange rate is not at odds with parity, then the purchasing power of the domestic currency is at odds with the exchange rate. If we decide on further devaluation, then the economy will get into an inflationary spiral where increasing prices lead to further devaluations. (See *Strategy for Transition to a Market Economy*, written by a group of experts under the direction of Dr. Karel Kouba, Prague. March-April 1990, pp 65-66)

The basic argument for maintaining a relatively stable, hard currency is the resulting ability to avoid the consequences of the "vicious circle" of chronic inflation and devaluation. After all, the example of the Austrian economy shows that it opened to the world gradually and that prices in specific sectors of the economy were deregulated just as gradually, as international competition developed. The entire process lasted more than 10 years and even today the so-called Parity Commission controls about 20 percent of all prices.

It will be useful to cite the arguments of the Austrian economist H. Handler in favor of a hard currency policy

that has brought our neighbor Austria its current economic prosperity. These arguments are from H. Handler, *The Exchange Rate as an Intermediate Target of Stabilization Policy in Austria*, as printed in the book *The Political Economy of Austria*, edited by S.W. Arndt. American Enterprise Institute for Public Policy Research, Washington and London. 1982. p 54.

"1. A fixed exchange rate between the schilling and a currency of a trading partner with greater price stability than in Austria will import that stability.

2. A small, closed economy cannot form prices on the world market. One can assume therefore that prices in a foreign currency are given. A hard currency policy puts pressure on profits in the open sector of the economy and will motivate firms to refuse to grant excessive wage demands to unions. This lowers inflationary pressure throughout the economy.

3. A hard currency policy probably creates a climate of monetary stability and retards inflationary expectations and facilitates incomes policy.

4. The pressure on profits in open economic sectors resulting from currency valuation will change the production structure and force companies to improve productivity. This over the long term improves the competitive position of the open sector.

5. Empirical evidence from other countries (Great Britain, Italy) indicates that a soft (weak) money policy, i.e. the intentional lowering of exchange rates, can very quickly become a vicious circle. Devaluation gives rise to greater inflation, inflation forces compensational fluctuations in wages, higher wage costs lead to further devaluation, etc."

#### Will the Reputation of the Economy Suffer?

From all points of view, then, the government policy of a one time price deregulation and currency devaluation is one that holds enormously high social costs and risks. The same can be said of potential loans from renowned international institutions which are usually accompanied by demands for further devaluations. This is perhaps an acceptable path for certain Third World countries, but it is not a technique that has guaranteed success for mature market economies. The economic policy of developed countries which have and continue to rely not on the ranks of international institutions but on the intelligence of their peoples has been and remains a hard currency policy, because only such a policy is capable, at a price of some sacrifice (restricted wages growth, etc.) of maintaining the reputation of the economy, making it gradually attractive for foreign capital and foreign workers.

When however, we look at the approved government program of radical economic reform from any angle, it raises justified fears. In the area of institutional reform there are nondemocratic forms of nationalization which will clearly do more harm the good, as is the case with

any template and blanket scheme. In the area of approved forms and techniques of economic policy there are basically two problems to discuss:

—The sole source of success is expected to be restrictions on aggregate demand, i.e. from strict macroeconomic monetary and fiscal policy, rather than from a flexible stimulation of aggregate supply, i.e. from more complex growth scenarios with adequate revenue policies;

—All hopes are placed on an accelerated, one-time and general price deregulation on the very doubtful grounds (as previous experience has shown) that prices will resolve all problems, rather than attempting, for instance, selective price deregulation and the gradual approximation of relative prices to world levels. This approach alone can result in the opening of the Czechoslovak economy to an uncompromising external environment.

We are afraid, in summary, that the prescribed therapy, which at a minimum terminates and unjustifiably riskily simplifies the historically unique path to our new economic future, will probably result only in deepening inflation with all of its negative socioeconomic consequences, and to the breakup of the entire reform process. Since this affects the most essential problems of our entire society we consider it our responsibility to express our opinion openly and critically the conviction that only a serious, wide ranging discussion can demonstrate the vitality or promise of this or that idea or potential program.

#### Slovaks Urged To Heed Czech Policies

90CH0272B Bratislava NARODNA OBRODA in Slovak  
7 Jul 90 p 3

[Article by Igor Cibula: "Let's Not Be Afraid of Czech Inspirations"]

[Text] Slovakia, involved in its own processes of self consciousness and searching for its national and political identity, has almost not noticed how these processes are proceeding in the Czech lands. We have been only peripherally aware of the formation of the Czech national representation. We are missing many interesting and inspiring suggestions from precisely the environment that is the richest historically and culturally for us. This also makes it close to us, and somewhat similar.

For this reason we need to take a closer look at the programs announced by the government of Petr Pithart, who the Slovak public does not know very well, just as the citizens of the Czech Republic do not know the programs of the cabinet of Vladimir Meciar. One should add that this situation is characteristic of inadequate Czech-Slovak communication. In neither Prague nor Bratislava have we overcome our mutual prejudices and underestimation of the need to identify current problems that face our two peoples. Slovaks are setting off to

Europe, and act as if Prague is on another continent. And Czechs think that Europe ends at the Moravia-Slovakia border.

I used the above formulation purposely hoping to provoke in the Slovaks an interest in how the Pithart government views the new form of Czech nationhood. He wants to assist in the renovation of what has been referred to as a civil society. In true Czech tradition, a major priority is the issue of self-administration. It is particularly important to note his goal of "supporting new currents of locally inspired policies that extend beyond national boundaries". This should lead to the "spontaneous formation of relations between Moravsky Slovacek and Zahori, between Brno and Vienna, between the Czech lands and Bavaria, and even amongst regions farther removed from each other."

It is possible that some wary nationalists may fear this Czech example and categorically deny its relevance for us. Nevertheless we should take note of it and consider whether or not we might set out on a similar path towards Europe, which surrounds us on all sides. Looking to the south would clearly be more complicated for Slovakia, but none of the obstacles along this path should be a reason for us to be indifferent to the Czech example!

### Women Not Represented in New Slovak Government

90CH0272A Bratislava NARODNA OBRODA in Slovak 7 Jul 90 p 3

[Article by Eng Eva Brendlova: "...Like a Successful Night Out With the Guys: Trying To Answer the Question, Where Did the Women Stay?"]

[Text] After formation of the government of national understanding I asked in an article by the above name why the government contained so few women. The article was, to be sure, published, for which I can probably thank 17 November but, as was the case before, there has been no response to it, especially from those who made the decisions about the composition of the government. Nevertheless I believed that this happened only because they were very busy with very important work. It looks like I believed in the impossible. Why?

Just take a look at the makeup of the new legislative and governmental offices. This is particularly evident in the Slovak Republic. We fought for a hyphen in the name of our country and we came very close to losing, internationally, the great moral respect we had earned by our velvet revolution. It is proper that we want not just formal, but actual equality and its corresponding constitutional order. We spare no words or examples in support of this demand. But what is going on domestically while we are pushing so hard abroad for our right to national equality? How are we applying this principle amongst ourselves in Slovakia? How are we implementing one of the basic articles of our constitution, which guarantees the equality of all citizens? Are we

assuming that this article will not be included in the new constitution? Why are we prescribing water, but drinking wine ourselves?

All I had to do was look at the composition of the new Slovak Republic Government and I lost all my illusions. At least there was one woman in the preceding government of national understanding, but she is not in the new one. There is not a single woman there!

The word democracy is declined in all its cases in the speeches that roll off the lips of the highest authorities. It reminds me of the not too distant past, when another word was constantly declined, but with the same practical outcome.

I ask how it can be possible that in a republic where 52 percent of the population and 47 percent of the work force is female, that women have no representation in places where decisions are made about their welfare and standard of living?

The response has been that women have not been sufficiently involved. This is a serious assertion and should be responded to. What does it really mean to "be involved"? Does it mean to stand sometimes at a podium and use cheap effects to gain popularity, or does it mean to work every day, and it is thankless work, for the practical implementation of the ideas of 17 November? Please do not take this as a criticism of those who put themselves on the line when things were far from decided. I have the utmost respect for these people and am grateful to them for their personal courage.

Women have always been less assertive, believing that they could make a contribution through their work, their education, and professionalism. After all, we live in an age when these are the only criteria that should apply. Or do you think that the announced Government Commission for Women and Children is an adequate alternative?

In the past we have criticized, privately, the ways in which positions were filled. In many instances unqualified people have been selected and the results have been predictable. I do not know the members of the current Slovak Government, but are they really so highly qualified that they could not be replaced by capable and intelligent women who are experts in the same fields? Are you aware that there are more college educated women in this country than men? How can we continue to waste this national intellectual capital?

We continually tell ourselves that we are facing a very difficult two years, maybe more, and that anyone working in a high office will have to be completely committed to the job. How do we gain this commitment, however, when some of the current members of the government are simultaneously delegates, ministers, and even in some cases have kept their original occupations? Gentlemen, what are you up to here? Are you really interested in the common good? Shouldn't you practice a little self-criticism?

**Finding Balance Between Market Economy,  
Unemployment Viewed**

*90CH0244E Prague HOSPODARSKE NOVINY  
(supplement) in Czech 13 Jun 90 pp 1, 5*

[Article by Jiri Malek, member of the National Educational Committee Council, Prague: "Uncertainty About Retraining; Market Economy Equals Unemployment?"]

[Text] Market economy and unemployment go together, and no country has been able to avoid that. But we can learn from advanced countries how to strengthen the positive aspects which the labor market together with unemployment contributes to an efficient economy, and also how to come to handle the undesirable social effects. At the same time, we will all have to get used to tensions in the labor market (or, rather, the labor force market). From the socio-psychological point of view it will not be easy, and we also must expect that social security will become ammunition in the political struggle as well.

At this time we are unable to say with any great certainty how large a role in the instability of society will be played by people who will not find a place in the labor market. Even the politicians here touch that question carefully, if it is not clear how they will benefit from it politically.

The forecast made on the basis of the already announced dismissal of workers from various institutions and organizations indicates that the increase in unemployment will be rapid; in Prague alone it is expected to amount to hundreds of people in each successive month. In the second half of March of this year, more than 110 people and by the end of April already up to 200 people in Prague were paid by the national committees as unemployed, or to be more precise, as citizens drawing support prior to being employed.

"The right to work" has to be understood in a new way. In a number of countries with a developed market economy it is written into the basic laws also. The solution has three aspects: economic (the problem of distributing the labor force and increasing labor productivity), political (the effort not to create unnecessary political tensions, but, on the contrary, bring harmony to society and enable people to find their place in society), and social (the effort to create tolerable living conditions for those citizens who are without work). At stake is not only a guarantee of the material necessities of life, but also conditions for preparing people for a new line of work. That is connected with the state educational system as well as the private educational sphere, it is projected into a lifelong educational process and other areas.

The labor market is difficult to estimate even in stable political-economic systems. However, it is naive to think that unemployment will be a panacea for all the ills of our economy, that it will eliminate all the loafers and lazy people, and that it will be a whip that will achieve an immediate increase in labor productivity.

Little discussed until now has been the psychological aspect of unemployment, a man's feeling of not being needed. And neither can it be assumed that during this housing shortage people will be rushing to move where the work is. However, 92 percent of the public believe that unemployment increases the pressure for a higher and better quality labor performance.

The current efforts must be directed in several parallel directions and legislative questions solved without delay. The law on employment should be passed with dispatch, as well as other follow-up regulations. For example, it will be necessary to work out the manner of controlling the right to payments and their amounts for unemployment support, under what conditions retraining can be reimbursed. It is essential to create soon a comprehensive information system of computer technology and a single database for the taxation and labor offices, a single social security and social support system. Only in that way will it be possible to operatively, quickly, and justly resolve all the components of assistance to people, such as guidance, payments, work opportunities, including opportunities for citizens whose ability to work changed and for school graduates, mediation.

Our experiences thus far also point out certain trends. The public rightly criticizes the level of education, but among the unemployed in Prague one-third are college graduates, mostly in the humanities, and most have a high school education. With the up-coming graduation of high school and college students, it will be necessary to find jobs for them, too. Another critical instance will be to place eighth grade children, because the possibilities to place them in training institutions are declining. A solution of sorts will be a ninth grade of the basic school.

In connection with the dismissal of workers, problems could arise with "citizens with a changed ability to work." Their dismissal must be approved by the bureau of social affairs of the district national committee, and then they must be placed in a new workplace. Even while preoccupied with the market economy we cannot overlook the justified requirements of afflicted citizens and relegate them to the fringes of society.

Greater attention must be paid to retraining. The state should guarantee it by law and strive to give specialized training to citizens; such training should create conditions for finding a new job in accord with the needs of the economy as well as with the interests of the citizen. The ratio of financial means should also correspond to that. For example, in the FRG the ratio for support and retraining is 1:1. People who undergo retraining are not listed among the unemployed; they are getting an education, they have some prospects and are not stumbling around in idleness.

In the documents that are being readied concerning the creation of socially beneficial work opportunities, the responsibility of the national committees is mentioned. Although many things here are unclear, a purposeful structuring of workplaces under the direct influence of

the state cannot be underestimated. Naive notions about an absolute "freedom" of the labor market without state intervention are dangerous, because they do not place sufficient importance on the socio-political aspect and its great impact on the overall stability of the state and the society.

Of course, administrative instruments cannot be used. The instruments must be "market instruments", above all financing and taxation, but one of them must also be the political influence of the individual social strata of society, implemented, for example, through the agency of their representatives in the elected representative bodies, in parliament, in local self-governments, and in tripartite proceedings.

Also still missing are forecasts about the labor market. On the contrary, some consider those who point out the real trends in this market (including the increase in unemployment) to be people who want to put the brakes on social processes. Unfortunately, our tradition to punish the bearers of bad news rather than tackle the problems is reflected even in this area. We should have discussions about unemployment and not just make generalized statements about it. However, the national committees must react immediately and help the citizens.

Very shortly there will be formed a platform for a dialogue among the three partners in the labor market: employers (state enterprises, cooperatives, and the private sector), employee representatives (who should most likely be trade unions but also other special interest associations), and the state. This dialogue should be distinguished by civilized behavior and an effort to reach a mutually acceptable compromise in which nobody would loose too much; and it must be quick enough so that it anticipates problems and is not be dragged along by them. Experiences thus far do not give cause for optimism. Emotions are still prevailing over rational solutions for the future.

Very unclear is also the role of the tradesman sphere in solving unemployment. Here, too, it will be necessary to define rules for involving the private sector in creating job opportunities and in the structural changes of our economy. This sector has broad possibilities, it is only necessary to give them incentives, rules, and security for all partners.

People who engage in private undertakings will need a new workforce, but it cannot be expected that tradesmen will retrain their workers wholesale. The state should share in the financial help for retraining and in paying support during the retraining. Private initiative can also be broadly applied in providing retraining.

In Western Europe there are good experiences in linking both partners. The private sector provides specialized practical training which the state at least partially finances. The theoretical part is provided by state schools. Important is also the verification of the gained

skills, which in the FRG is carried out by state institutions together with craftsmen's guilds. A certificate of retraining and other education will be important for a smooth movement of people among workplaces, which will recognize the acquired skills and work abilities.

We also talk very little about the relationship of the bureau of labor and the economic sphere. For example, the requirement to administratively determine how many people an enterprise must accept and under what circumstances, is not correct: The starting point is the use of economic instruments. The employers must feel that cooperating with the bureau of labor is to their advantage. That is manifested above all in the lower costs for finding workers. A better advertisement in the FRG costs four to five thousand DM, and then the enterprise also must do the selecting. The bureau of labor is already doing the selecting according to the categories of skills.

Enterprises in the FRG are not required to report available jobs. For example, a bureau of labor in Hamburg has a list of about 40 percent available jobs and about 90 percent of enterprises report available jobs for apprentices and school graduates. Jobs requiring higher qualifications or at a higher level are seldom "arranged" through the bureau of labor. The employer seeks to find such a worker among his own employees.

#### **U.S. Consultant Zeleny Views Agriculture, Market Economy**

*90CH0244A Prague ZEMEDELSKE NOVINY  
in Czech 21 Jun 90 p 7*

[Interview with Professor Milan Zeleny; place and date not given: "Suspenders Are Not for the Lean"—first two paragraphs are ZEMEDELSKE NOVINY introduction]

[Text] He is Czech by birth. In 1964 he graduated from the Advanced School of Economics in Prague, then worked in the Economic Institute of the Czechoslovak Academy of Sciences—in the economic-mathematics laboratory with Professor Ota Sik. In 1967, during the first economic reform when we also made an attempt at a market economy, he was sent to the United States where he remained after 1968. After 23 years he returned, not only to the School of Economics but also to his former workplace in the Czechoslovak Academy of Sciences. Who? Dr. Milan Zeleny, today a professor at Fordham University in New York.

I talked to him not only about economics and organization, but about anything that can come up during a friendly discussion.

[ZEMEDELSKE NOVINY] Are you returning as a guest or permanently?

[Zeleny] I was sent to Czechoslovakia on a Fulbright grant, an endowment that sends American specialists and researchers abroad. Regardless of the velvet revolution, this visit had already been decided about six

months before November. The object of my interest is Czechoslovak agriculture because I still remain fascinated by some of its organizational features, specifically perhaps by its Slusovice system. During the next five months, I would like to study especially the organizational structures of modern agricultural enterprises.

I know that in Slusovice in particular exist organizational innovations which remind me of the Bata system. And because I devoted a lot of my studies to this system, and my lectures about it met with success in Japan as well as other countries, I would like to get acquainted with it directly, that is, in Slusovice.

[ZEMEDELSKE NOVINY] But today there are voices being raised objecting to Slusovice, on the grounds that their success is based on financial and political machinations.

[Zeleny] I was very disappointed when I heard that. If I look at it objectively, as an economist from the United States, and when I study their organization and their own descriptions of how they work and what they do, then I can say that their system is decidedly innovative as far as the organizational aspect is concerned. I am convinced that even without those machinations for which they are being criticized they would still have had, perhaps not such extraordinary, but nevertheless certainly above average results. I am still convinced that the success of Slusovice is not the result of being given priority or favors, but the result of their entrepreneurial system.

To be able to put into force this internal organization, they probably had to circumvent many things in one way or another. Let us keep in mind that their system was functioning within a very severe, politicized command system, that they created a world-class enterprise under conditions which were in no way "world-class." But it would be a pity if the Slusovice system were to be besmirched only because they took some round-about ways that were inconsequential to it. Not just I, but many world experts agreed on one thing. Inside a fully developed market economy, this system would be very successful and perhaps even one of the most studied. I would be disappointed and—I repeat—it would be a loss for the entire Republic if we were to lump together the quality and the value of this system with the machinations which were brought about not by the system but by its environment.

[ZEMEDELSKE NOVINY] Can any firm in a market economy publicly reveal its practices to such an extent as Slusovice, whether good or bad?

[Zeleny] Do you have in mind exposing to view all the mechanisms of management and financing which is now taking place, and which is probably also one of the sources of the problems that Slusovice is experiencing? In the market economies I know, it is not necessary because everything is reduced only to economics as such. It is a patently Czechoslovak problem that political and economic problems are being mixed together. In a

market economy "party interventions" do not exist, there are only special purpose subsidies to specific agricultural enterprises.

[ZEMEDELSKE NOVINY] What do you think about the view that all enterprises should have the same starting conditions?

[Zeleny] I do not like it very much—it is a typical feature of Czech envy. On the contrary, the fact that top-notch enterprises have a certain head-start should be put to advantage. They are something like a model as well as a touchstone of the new, and they point out the way to proceed. Every entrepreneur who opens up a new field and a new organizational system takes a considerable risk. He should be properly appreciated by society, because others can use these ready-made, positive experiences.

[ZEMEDELSKE NOVINY] In this country people know private, cooperative, and state management, or perhaps enterprises with a higher level of integration. As an economic theoretician, can you tell me which organizational form of entrepreneurship do you consider best for our agriculture?

[Zeleny] I consider the ideal economic system, and not only for agriculture, to be one where the employee is the owner and at the same time the owner is the employee. The two roles actually merge. There was an intimation of that here already in putting workplaces into socialist ownership. From there it is only a short step to turning enterprises over to ownership responsibility of individual employees or groups. A form of shared employee ownership is known in the world.

In this connection I would mention one more thing. I have often heard, previously as well as now, criticism of the developing of subsidiary industries. They say that instead of producing wheat and meat, they make computers and such things. But modern agriculture around the world is following precisely this road of subsidiary industries, and advanced Japanese as well as American enterprises are beginning to link quite deliberately agricultural and industrial production. In Japan, electronic firms are located in agricultural areas. Besides manufacturing, for example, computers, their employees are included in agricultural activities and vice versa—agricultural employees are included in industrial production. The purpose is to balance out the considerable fluctuations stemming from the seasonal nature of agriculture.

Subsidiary productions are therefore nothing unusual, on the contrary, it is a method which should be purposefully thought out and developed. It happens to be one of the ways of guarding against unemployment, with which we must count and which is the consequence of the narrow focus of agriculture and its biologically conditioned nature. If there is only one line of production and if there are fluctuations in it, then lower profits and unemployment are inevitable. People must be let go and then rehired. But as soon as an enterprise begins to

diversify its activities, combine them, has a seasonal balance, it will gain stability and does not need to be afraid of the mentioned economic threats.

These are not new ideas, but for certain reasons they were forgotten during the days of mass production. In the thirties, Henry Ford himself called for combining agriculture with industry. After all, the seasonal nature of agriculture has been its scourge from time immemorial and lowered its productivity. These ideas should now be dusted off here. Instead of the pseudo-socialist views that a farmer should farm and industry should produce industrial goods, we should look at things from the point of view of modern economics. The problem of fluctuations must be resolved not only in agriculture but in industry as well. And that must be made the basis of the strategy.

[ZEMEDELSKE NOVINY] Let us go back again to the form of shared employee ownership.

[Zeleny] As I said already, the category of shared ownership should predominate in your country. A farmer, even if he is interested in having his ownership rights returned, would thus always have the possibility, and even a very advantageous possibility, to exercise his rights within the framework of a cooperative. That way he would have his fields and other means of production under full control. The cooperative would buy his products and he would receive services with which he would have problems as an independent farmer. And at the same time he would have access to technology and science. The point is for him to look at his share as his capital interest.

Enterprises could also be formed not only within the framework of a colossus, but community enterprises combining agricultural and industrial production. The entire community and its population would share in the enterprise. That would resolve an enormous number of problems connected with the sense of ownership, own efforts, work, as well as ecology. Such relationships already exist, particularly in Japan, and the beginnings can be seen in the United States as well. I would not say that it is very widespread, but I think Czechoslovakia could play the role of a pioneer in this.

[ZEMEDELSKE NOVINY] You said that this form of ownership would also help ecology. What did you mean?

[Zeleny] Many people think that the way to solve ecological problems lies in government intervention, regulations, in fines and in building a strong apparatus which would somehow control all that. It is much more simple and natural if the community around the cooperative, enterprise, or agricultural-industrial concern—for example a township—were to be asked to acquire direct capital interest and the enterprise in question then would become the property not only of its employees but also of the community in which it functions. And a bird will not foul its own nest. It is not very likely that employees or directors who live in a given locality, who have their

families there and are bringing up children there, would release toxic substances into the air or water.

I have the feeling that the Greens movement does not approach this very well, that it is a movement which is too politicized, and that it stakes everything on the state, on building a bureaucracy which is very expensive.

[ZEMEDELSKE NOVINY] But agriculture is not the only polluter of the environment?

[Zeleny] I would just like to say that agriculture—the top enterprises—could play the role of a model in this area. The mentioned principle does not apply only to agriculture, however. Industrial enterprises, too, by having employees share in ownership can influence the environment around them. Today some American enterprises have gardens and cottages for their employees in the immediate vicinity of the factories...

[ZEMEDELSKE NOVINY] What do you think about the planned reform of our economy?

[Zeleny] I believe that one of the basic problems of your economy is the lack of understanding of the relationships in a market economy and the essential institutions which a market economy requires—stock exchanges, joint-stock companies, credit system, macroeconomic manipulation of prices, anything. These institutions are the result and reflection of the microeconomic movement, they themselves do not cause and influence the microeconomic movement. We can compare it to a man who is doing well, eats well, and begins to get fat as a result. One day he is forced to use suspenders instead of a belt. And he tries to get his increasing weight somehow under control. And we can compare these suspenders to economic institutions. In your case, however, Czechoslovakia is a rather lean person. It is not going to get fat and rich just by putting suspenders on it.

A market economy does not work that way, either. Macroeconomic manipulation or a quick introduction of joint stock companies, credit systems, and stock exchanges seems to me to be like putting suspenders on a beanpole of a man. You want to introduce institutions such as exist in American or West European systems, but they have had this tradition of getting fat and rich for more than 50 or 100 years. It is therefore logical that in the course of time they developed institutions which characterize the given society and are, above all, a reflection of the movement. I believe that in your case you are making a mistake. A market economy creates for itself the various institutions which it needs. But these institutions by themselves do not create a market economy. And from this point of view, even your government economists are making a mistake.

[ZEMEDELSKE NOVINY] What then would you push through, if you were the minister of finance?

[Zeleny] In contrast to what Minister Klaus says, who basically proposes to first liberalize prices and the entire economy across the board, my opinion is the opposite.

Based on microeconomic results, create pressure on prices in macroeconomic relationships. That means demand price changes above all according to quality and amount of products. To my mind, the movement of prices is turned on its head without an improvement in the quality of production. Price policy should be determined by microeconomics! If it is not, you can expect that a lot of substandard products will immediately drive prices to the maximum. There is a great danger in that, which I am emphatically warning against. Your economy could come to a standstill. Prices will be so high that the movement of goods will cease. Although shops will be full and there will be plenty of everything, people will not be able to buy. One need not go far to see an example of such a development. It suffices to look at your neighbors in Poland.

It is a great mistake to think that enterprises react to free prices. Enterprise must react above all to the movement of goods! And as long as there is no such movement, there is a real danger that the production enterprises will put all their investments into speculation, will liquidate part of their production, and possibly also buy stock in the West. And you need the very opposite. That could bring inflation and a drop in the standard of living as an immediate consequence of such policy. And that will be very difficult to rectify.

As I see it, the microeconomic movement should bring about corresponding changes and freedom in the macroeconomic and price levels. The only way to activate your economy is to begin with the enterprises—with enterprise subdivision relations and interenterprise relations. Let them develop, mature, and thus also put pressure on macroeconomic relations. And only then begin to free prices.

#### Land Taxes Considered Excessive

90CH0244B Prague ZEMEDELSKE NOVINY  
in Czech 21 Jun 90 p 7

[Article by Frantisek Rudols, Svetla u Ceske Skalice, Nachod district, follow up on the article "Let's Not Go From Extreme to Extreme": "Intolerable Tax Burden"]

[Text] One of the most discussed laws after 1 January 1989 has been law No. 172/1988, Collection of CSSR Laws, on land tax and tax on profit from agricultural production. Everywhere in the countryside it is considered to be highly unjust, and individuals, agricultural cooperatives, and national committees, for whom it is a source of many disputes and misunderstanding with taxpayers, all are dissatisfied with it.

It is said that it was issued and signed by representatives of the totalitarian regime with the aim to deal the final blow to private farmers and small land users, but it has remained in force until now when private farming is to be supported and a market system introduced.

In that connection I was interested in the article by Josef Kodes, chairman of the Local National Committee

Dubenec in the Trutnov district, published on 29 March of this year in ZEMEDELSKE NOVINY under the title "Let's Not Go From Extreme to Extreme", with which I agree totally.

The new classification of land in one of the 42 economically productive groups is quite complicated and results in many inconsistencies, so that in one and the same cadastral area it is difficult to understand the differences in taxing land according to this law. These great differences are understandably the source of justified taxpayer dissatisfaction.

In comparison with the past, the current tax burden is practically unbearable for a small taxpayer and a private farmer. As an example, in our area of foothills, with an average of 350 meters above sea level, a hectare of agricultural land was taxed during the first republic approximately Kcs 240 in pre-Munich currency, whereas today's rate was set at Kcs 1,200, which is five-times as much. A farmer therefore paid Kcs 6,000 of land tax on a 25-hectare farm; today he would be taxed Kcs 30,000.

How difficult it is to farm as a result of the agricultural tax can be seen in this concrete example. A user of 38 acres of agricultural land pays in this instance Kcs 456 of land tax a year. To pay this sum, he must dry and sell 600 kg of hay or 45 kg of black currants. What that means in practice can be correctly judged by someone who engages in such work and knows the difficulties connected with it. He is paid Kcs 70 for 100 kg of hay, and Kcs 10 for 1 kg of black currants, including delivery to the distribution site.

Under such circumstances, the cost of production is not economical. People, particularly older ones, are giving up such activity. After all, in the past a metric centner of hay had the same monetary value as today, but then a liter of milk cost Kcs 1 on the average and today it costs five-times as much. The price of black currants is close to the Kcs 10 of the winter price of apples.

According to law, the taxpayer is the user of the land which is entered in the land registry as agricultural land, without regard to what is cultivated on it.

The national committees have various ways to ease this not inconsiderable tax burden on citizens, but they seldom use this possibility which the law gives them. They can lower the land tax by as much as 50 percent on land which is of substantially poorer quality than other land in the same cadastral area, including land used by socialist organizations. Unfortunately such entirely justified reduction mostly does not take place, because the national committee as the administrator of the tax tries to get as much as possible out of it for its own use.

Generally speaking—this new law can be said to be highly unobjective and unjust, and bears the visible stamp of the previous totalitarian regime. Our public rejects it as the undesirable legacy of the past. Because it has so many negative impacts, it should be abolished and

replaced with a new law that would correspond better to the changed conditions in our democratic society.

## HUNGARY

### Growing Concern About Overdrafts, Interenterprise Indebtedness

#### Drastic Increase, No Accurate Figures

90CH0213A Budapest *FIGYELŐ* in Hungarian  
17 May 90 p 1

[Article by (w.i.): "Financial System: Threat of Explosion?"]

[Text] It was announced by an official source that there are 700 enterprises whose "standing-in-line value," in active or passive position, can be estimated to be around 130 billion forints. This is a tremendous sum, equal to five percent of the production value of the material branches. If we compare it to stockpiling, the proportion is even more alarming; nearly 60 percent of that value.

In several cases, the period for standing-in-line payments does not exceed 30 days; that is, according to the regulations in effect, debtors do not have to announce the bankruptcy proceedings they have initiated. This short-term requirement by enterprises to extend credit to each other, even though it disturbs financial processes, cannot be qualified as an inability to pay.

One aspect of standing-in-line payments that cannot be accurately defined is when enterprises are "patient" with each other on the basis of mutual agreements, because they consider this to be cheaper than bank credit which is increasingly more expensive.

There is also the opinion that it was standing-in-line payments that caused an increase in interenterprise cash flow; this being a means by which enterprises withhold some of their payments to each other from the control of the banking system.

It is justified, therefore, to ask: What is the real sum of moneys owed by enterprises to each other? Attempts have been made to define this amount, but they have failed, because according to certain signs drastic means are being used to reduce the actual volume of standing-in-line pay orders. As an example, when a bank does not accept bills that are sent to it for collection, this process remains unrecorded.

Regardless of its real value (which, by the way, is probably less than 130 billion forints), standing in line is a self-generating chain of processes which has become quite widespread in the past few months, and could easily explode the financial system. Our fledgling banking system thus far has been unable to address the phenomenon of standing-in-line payments in a suitable manner, and when it comes to the heritage of unprofitable enterprises, it has even created a peculiar "accessory" relationship in this area of management. For the

time being, the central bank, the commercial banks, and financial experts can only search for methods with which the practice of standing in line could be reduced and, in the long run, even eliminated. (Related to this issue, we are publishing a proposal on page 13 of this issue.)

#### Multipronged Remedy Recommended

90CH0213B Budapest *FIGYELŐ* in Hungarian  
17 May 90 p 13

[Article by Belle Ronaszeki: "Is There a Way Out of Standing-in-Line Payments?"]

[Text] The number of enterprises with standing-in-line pay orders has reached proportions that threaten to make financial regulation impossible and to cause the collapse of our financial and account settling system. In 1989 there were three times as many enterprises with standing-in-line pay orders as in the previous year, and early in 1990 the number of enterprises with standing-in-line pay orders is already twice as great as last year.

By now it would be futile to try to eliminate standing-in-line payments with a single administrative means. That is why opinions that the problem can be solved by using central pressure in forcing banks and other large creditors (social security agencies, tax authorities) to initiate a significant number of bankruptcy procedures are illusory. Eliminating the practice of standing-in-line payments calls for the use of several extraordinary measures; in the area of collectible debts, for example, a general forced settlement of debts with the intervention of the monetary system is indispensable. Accounting for the mutual debits and credits with a central "technique" requires serious computerized equipment, but it would not result in pumping additional money into the economy. Rather, it would eliminate, through financial technology, a portion of accumulated instances of standing-in-line payments. In order for such a process to be feasible, and in order for us to find the technique best suited for it without endangering domestic equilibrium, we must try to distinguish between two types of insolvent enterprises:

—One type of enterprise is the one at which chronic insolvency is caused by the wrong product profile, the lack of market competitiveness, a low degree of efficiency, in other words, in structural problems;

—We should attempt to separate from the above the type of enterprises at which insolvency is not the result of their own faulty management, but indebtedness by others and the mass occurrence of standing-in-line payments. These enterprises are the victims of a process of deterioration in the financial discipline brought about by the phenomenon of standing-in-line payments.

If they are not confronted with the compulsion to change their real processes and structure (that is, if they are not forced to choose between bankruptcy and getting back on their feet), insolvency is only a surface symptom of

economic illness at noncompetitive enterprises with faulty product profiles. In their case, the allocation of auxiliary moneys is not likely to create normal management conditions; rather, we should compel the real processes, with as little administrative intervention as possible, to follow an emergency course at the end of which they would find market compatibility or bankruptcy.

Enterprises with faulty product profiles have a definite role in originating and perpetuating the phenomenon of standing-in-line payments: The longer we allow such insolvent firms to agonize, the more they are likely to contribute to the deluge of this practice. Thus, when it comes to the phenomenon of standing-in-line payments, it is of crucial importance to find ways for accelerating the rehabilitation or elimination of these enterprises by creating suitable administrative conditions. This calls for reevaluating the handling of bankruptcy procedures and their legal regulations.

### Rigid Courses

The 1986 law concerning bankruptcy proceedings has many anachronistic elements, and it has become an obstacle to bankruptcy proceedings. According to concepts prevalent at the time the law was enacted, the fate of insolvent management units could take any of three courses:

- Prior to initiating bankruptcy proceedings, the creditors could attempt to reestablish the unit's solvency;
- If creditors are unable to arrive at an agreement along these lines, the state as proprietor could (through the National Organization for Bankruptcy Proceedings) order the initiation of state bankruptcy proceedings with the purpose of helping the unit to get on its feet. Since such proceedings demanded extensive use of state resources, the budget of the National Organization for Bankruptcy Proceedings represented an *a priori* limitation to its activities among enterprises that were deemed worthy of rehabilitation;
- If an insolvent enterprise could not "latch onto" either of the above two means of escape, it has only one recourse: declaring bankruptcy and dissolving without legally transferring its assets, in which case its entire holdings would be auctioned off. Such liquidation, of course, means that the debtors' demands could be satisfied only in part and only at considerable nonredeemable cost. In the vast majority of cases, the sale of existing properties also represents a great loss to society as well.

These courses of action are rigidly defined. It is little wonder that in practice it is very difficult to entice participants of economic life to choose any of them. Nor is it an accident that in most cases they will try to bypass these rigid and compulsory courses of action by attempting to carry on their unprofitable economic activities.

### Shortcuts

Under the existing bankruptcy rules, everyone expects someone else, primarily the commercial banks or the state as creditors (through the chief administration office of the APEH [Internal Revenue Directorate]), to make the first move to initiate justified bankruptcy proceedings. The law enacted in 1990 prescribes that management units must initiate bankruptcy proceedings involving their own enterprises.

These prescriptions call for behavior patterns that are in conflict with the well conceived economic interests of these enterprises. This is one of the reasons why the system does not work. It has been characteristic of the past few years (and continues to be so) that no larger, more significant firms initiate bankruptcy proceedings against themselves, and that such occurrences involve only insignificant firms.

With commercial banks, initiating bankruptcy proceedings also means that certain credit losses have to be terminally written off. Under existing inflationary circumstances, the extremely high rates of interest discourage banks from initiating bankruptcy proceedings against management units recognized as bad risks but which continue to pay interests. Nor is the management unit interested in initiating bankruptcy proceedings, because it usually defines a compulsory course of action from which there is no recourse: The enterprise's properties are auctioned off, and managers and workers alike lose their existential security as well as their jobs. Due to these factors, therefore, the system tends to discourage interest in the process.

When it comes to initiating standing-in-line payment on account of structural and efficiency factors, its chain-reaction-like spread through the economy can and must be prevented by shortening and localizing bankruptcy proceedings with proper regulations. This necessitates legislative prescriptions that are based on the marketplace behavior and interests of the participants.

One of the most important modifications is that maintaining the status quo for an already insolvent enterprise should be limited to the shortest possible period. This means that, on the one hand, court proceedings to determine insolvency should be more professionally based and shortened. The courts should be required to formulate such resolutions by a legally binding short deadline. At the same time, in accordance with international practice, the most frequent type of bankruptcy proceedings, those in which the enterprise's owners declare bankruptcy, should be regulated in such a manner that they should not imply that the enterprises involved should have to be eliminated; rather, the proceedings should provide certain advantages and concessions, holding out the hope of survival without calling for particular point-by-point decisions made by state authorities.

**Self-Declared Bankruptcy**

According to international practice, in market economies enterprises that declare themselves to be bankrupt are given a chance to propose [recovery] plans which, if approved, promise certain normatively regulated financial concessions to the enterprise. (These may include a freeze on demands by state and other creditors, or the cessation of tax payment, credit servicing, and the payment of interest.)

The modern regulation of self-declared bankruptcy, by the way, does not mean that no management unit would ever be eliminated. Obviously, there will be enterprises that are unable to develop a plan of recovery that is considered realistic by their creditors. There will also be others that show themselves unable to execute their recovery plans and end up under the hammer of the auctioneer.

Of course, a new regulation of self-declared bankruptcy does not solve every problem; after all, for creditors the temporary freeze of demands (even if it promises to reduce the amount of their losses) implies that a portion of their existing resources would be removed from circulation and the narrowing of their resource basis. This could be especially problematic for lending banks, if the same bank has several heavily indebted and bankrupt enterprises among its clients. Rehabilitating several large bankrupt firms by a commercial bank could even mean that the institution's share of domestic money market would significantly narrow and it would have problems of liquidity. This is why it is necessary for the central bank to augment the elimination of standing-in-line payments with specific refinancing sources which the banks involved could use if their needs were deemed justified.

By establishing more realistic conditions for closing enterprises, by considering the interests of creditors and lenders in fiscally and monetarily regulating self-declared bankruptcy proceedings, and by creating more flexible enterprise closing possibilities without state intervention, we could greatly shorten and localize the existence of [insolvent] units which now continue to exist for a long time and create the thick jungle of standing-in-line payments.

**Bank Data on Debtor Enterprises**

90CH0213C Budapest FIGYELO in Hungarian  
24 May 90 p 4

[Article by Beata Torok: "Large Enterprises—Great Indebtedness"]

[Text] Bank accounts reveal that in the sphere of our economy monitored by commercial banks, as of February 28 the documentable value of payment orders that could not be fulfilled because of insufficient funds (that is, the phenomenon of standing-in-line payments) was 123.6 billion forints, which is about one and a half times as much as a year ago. Moreover, the banks' information

in this regard is somewhat more limited than previously, because (taking advantage of regulations introduced last September) certain banks, instead of initiating standing-in-line payments, simply return payment orders that cannot be fulfilled. Thus, the real (though undocumented) value of standing-in-line payment orders is probably much higher. (According to experts, this value may reach as high as 200 billion forints. The Editors.

Fifty-seven percent of the figure shown above, about 70.6 billion forints, are owed by 272 enterprises that have chronically shown serious insolvency. These are enterprises that on any given day of the month have shown an indebtedness of at least 25 million forints.

Chronic insolvency is characteristic of relatively few enterprises, most of which are large firms. Half of the 70.6 billion forints insolvency mentioned above occurs at 21 firms, and 13.2 billion forints of this is owed by three large enterprises. (Thirty-two percent of the 35.4 billion forints' insolvency is in the machine industry, 31 percent in metallurgy, and 13 percent in mining.)

The figure of 123.6 billion forints (which reflects a smaller amount than the real status of standing-in-line payments) is equal to 47 percent of the 263.4 billion-forint bank credit earmarked for short-term loans to enterprises, as recorded at the end of February.

Based on information furnished by banks, at the end of February 158 and at the end of March 177 enterprises were registered as being chronically or severely insolvent by the MNB [Hungarian National Bank], which refuses to effect secondary discount on checks issued by them as direct debtors. A list of these enterprises (which is continuously modified) is circulated by the MNB among the other banks. Based on this, the banks refrain from discounting checks issued by these firms.

**GM-Suzuki Manufacturing Agreements, Managements Compared**

90CH0218A Budapest FIGYELO in Hungarian  
24 May 90 pp 1, 22-23

[Article by FIGYELO editor in chief Dr. Gyorgy Varga: "Hungarian Automobile Industry: What Are We Getting Into?"]

[Text] Thanks to the collaboration of two global firms, Hungary will join the ranks of nations that manufacture automobiles. I wish to announce in advance that I am neither a relative, nor a litigant, nor an enemy of any of the partners involved in this affair.

One of the contracts was signed in January 1990 between General Motors Europe and the Hungarian Raba Railcar and Machine Factory. According to the terms of this contract, multinational manufacturing, merchandizing, and service firms will be established in a duty-free zone

for the purposes of manufacturing engines for automobiles, assembling automobiles, and merchandizing automobiles imported by General Motors Corporation and others affiliated with that firm. Subsequently, we refer to this as agreement "A."

In another development, Japan's Suzuki Motor Company, Limited and the shareholding enterprise Autokonszern, in which more than 50 Hungarian firms are involved, also signed an agreement in January 1990, according to which a Hungarian-Japanese multinational firm will be established with capital participation by Japan's C. Itoh Company, Limited and International Finance Corporation. In subsequent references we will refer to this as agreement "B."

Negotiations with Suzuki have been going on for about five years. It would be useful, both as a case study of industrial history and sociology, to follow the course of these negotiations, its stop-and-go phases, and the roles played by the various interest groups. As of 1987, the discussions involved the manufacturing of 50,000-60,000 Alto automobiles, with engines of 775 cubic centimeters displacement, and this concept prevailed in the negotiations all the way until the end of 1988. In other words, "the Swift Period" began in 1989.

#### Opel and Suzuki: Twenty Lost Years

The purpose behind agreement A is to manufacture the 1.6-liter OHC engines for the GMI [General Motors International] family of cars. These engines satisfy the most up-to-date requirements of fuel economy and environmental protection. In this regard, they meet United States standards. Plans include the manufacturing of engines, piston arms, drive shafts, and bearing covers, as well as engine assembly and testing. The ultimate production capacity of the plant would be 200,000 engines a year. Production would commence in the middle of 1992. Plan A also includes the setting up of a car assembly plant, which will begin operation in January 1992, producing at first 11,000 and, after 1993, 15,000 automobiles each year. The car to be assembled will be a new Opel model to be introduced that year. In addition, a multinational distributing firm will also be created, which will sell Opels assembled here and imported from abroad.

The purpose behind agreement B is to manufacture Suzuki's five-door Swift model with 1.0- and 1.3-liter engines. Production is planned to begin in January 1992, with yearly production reaching 50,000 by 1995 and 100,000 in the more distant future.

The model in question has been in use for two years, and plans for a 1992 production start-up must be evaluated in light of rapid technological progress. Even though this is not contained in the basic agreement, information released by the Autokonszern reveals that by 1991 the Swift will have a modified and technologically even more advanced five-door model.

#### Dividing the Capital

Plan A called for a total investment of \$160 million. Of this, machinery and equipment to be delivered by GM, as well as the value of tools, is \$131 million. The multinational production plant at Szentgotthard, owned by Raba, had a start-up capital of \$59.6 million. Sixty-seven percent of this belongs to GM, and 33 percent to Raba. Proprietary and voting rights are distributed accordingly. Raba participated in the founding of the joint enterprise by contributing the plot and the buildings. GM did not accept the office building and dining hall, considered part of the Szentgotthard plant, as contributions to the start-up capital, and placed a lower than book value on Raba's contribution of the assembly plant because, it claimed, the host country should contribute to capital investment and development projects of this size and character made by foreigners. Such state contribution was not made in Hungary. In order to complete the assembly plant, Raba had to obtain about 250 million forints' worth of loans.

It has not yet been determined what amount of capital will be required to create conditions for merchandising; however, it is quite certain that it will also require the infusion of foreign operating capital.

The multinational firm pays a licensing fee for know-how on engine manufacturing to GM. Details of that licensing agreement are handled as confidential information.

The total investment cost for Plan B was \$135 million. The total start-up capital of the multinational firm was \$69 million, the distribution of which has not been entirely clarified. According to the basic agreement, the capital share of the Hungarian Autokonszern is between 43 and 51 percent, that of IFC is nine-17 percent, that of C. Itoh is 10 percent, and that of Suzuki is 30 percent. This breakdown does not reveal clearly who has the majority of shares and who will have the right to supervise and control the enterprise. To be sure, the sum of Japanese shares is only 40 percent, a fact that seems to indicate that the Japanese partners wish to see Hungarians owning a majority. Also, the sum and proportion of IFC's contribution has not been completely determined; that financial institution has not made a final decision concerning its participation in this venture.

The start-up capital presently owned by the Autokonszern (1.3 billion forints) is of Hungarian origin and, according to information released by that firm, is equal to well over half of the 1.7-2.1 billion forint start-up contribution made by Hungarians to the multinational enterprise that was officially formed in mid-summer, especially if we take into consideration the start-up contributions initially announced by the participants. At the moment, it is time to make the payment of about 400 million forints, but due to various problems (probably related to liquidity) the payment readiness of the participants is not the best. Perhaps this is why the deputy minister involved in this matter wrote a letter to the

Ministry of Industry, asking him to deposit 100 million forints on behalf of the Autokonszern. But where would that money come from? And what would be the basis for making that deposit?

The multinational enterprise would return 20 percent of Suzuki's capital contribution as a one-time fee for using the latter's patents, which means that Suzuki's capital share in the new enterprise will be immediately reduced by that amount.

It is surprising that, even though negotiations have been going on for five years, it is only now that feasibility studies are being made. According to the concern, preliminary studies have already been made, and the new ones are being undertaken merely to "confirm accuracy." Perhaps it is my fault, but so far I have managed to read only one study entitled "The Commercial Possibilities of the Suzuki Swift 1.3 Automobile in Hungary," made in May 1989 by Kopint-Datorg. One of that study's fundamental observations is that even though there is a paying demand for the Swift model, "in order to successfully break into the domestic and European markets certain basic questions must first be answered." In addition, at 100 million forints, accuracy appears to have a very high price tag. I hope that those who prepare this "confirming" feasibility study will strive to evaluate the opportunities and risks in an objective manner, so that we can avoid a situation which one expert referred to (with some exaggeration) as "the Bos-Nagymaros" of the manufacturing industry.

#### Preferences

The government statement concerning the realization of Plan A referred to the agreement as having a major significance for the national economy. The statement, among other things, guaranteed the following preferences: The manufacturing multinational enterprise will be exempt from having to pay profit taxes for 10 years after the beginning of merchandising the product. After this period, the government will grant the most favorable tax regulations applicable to multinational enterprises operating in the duty-free zone. Invoking the principle of protecting domestic industry, the government will establish a customs contingency with a zero-percent custom rate applicable to passenger cars assembled in the duty-free zone and sold in Hungary, in the maximum quantity of 11,000 and 15,000, respectively. The prices of these cars will be burdened only by a general sales tax. Cars imported for 10 years under the terms of this agreement will be granted a marketing advantage, equal to a certain proportion of their dutiable value, by giving them exemption from having to pay duties, handling fees, and a certain proportion of sales tax. After 1 January 1996, the multinational commercial and service enterprise will be free to import passenger cars, provided it earns enough hard currency to permit this.

In my view, providing tax exempt status for 10 years seems exaggerated; it discriminates against both domestic and foreign potential investors, and goes

against marketing principles that are connected to equal opportunities. Its danger is that it may create a precedent for other foreign investors.

As counterarguments, one could point out that [by accepting the plan] it would be in Hungary, instead of Spain or Portugal, where GM would introduce the technologies of manufacturing the automobile engine of the 1990's, and would accept the greater share of the risks involved. Additionally, GM promises not to take the multinational enterprise's profit (including the profit to be gained from the difference between the normative and 100-percent exempt tax status) out of Hungary for the next 10 years, but rather to invest it here. By the way, guaranteeing a marketing advantage for cars assembled in Hungary was one of the conditions set by GM in deciding to establish the plant here.

As for Plan B, the announcement concerning that endeavor stated that the Hungarian Government considers it an "international project of great significance," and promises to take all steps set out in the basic agreement as conditions. In order to assure the successful implementation of the program, the government promises its full support.

As for the site needed to erect the assembly plant, the Hungarian Government will sell it to the multinational enterprise at a nominal cost, as long as it will (to use the expression of the basic agreement) establish the plant in an economically underdeveloped region such as that around Esztergom (?). The Japanese partner proposed a site accessible to the capital city and to water transport, where the "virgin" labor force has not been ruined by the "work ethic" of recent decades.

Other preferences include: tax exemptions, in proportion to the amount of hard currency deposited by the multinational enterprise, on the import of machinery and equipment; duty-exempt status for parts required for conducting production of exportable goods; and a five-percent reduction of customs on parts intended for cars to be sold domestically. For the first five years of its operation, the multinational enterprise will enjoy complete exemption from paying tax on its earnings, and it will be taxed at a preferred rate in subsequent years, and the government will make the necessary efforts to have the enterprises exempted from having to pay sales taxes.

#### Industrial Background

The guarantees tied to the realization of Plan B are of a narrower range than those of Plan A. True, the strategies of GM and Suzuki, behind the two plans, also differ as to the proportion of foreign capital, the risks, and the promised earnings.

Realizing Plan A is based on the creation of imported units, leaving opportunities for participation by Hungarian subcontractors open. GM also expressed its readiness to gradually accept more and more parts supplied by

Hungarian manufacturers, not only to the multinational enterprise's assembly plant, but also to other of its production units.

GM turns over, and will continue to turn over, to the multinational enterprise all documentation necessary for producing car parts, so that potential Hungarian subcontractors can decide whether they would be able to meet the requirements of quality and delivery schedule. For those firms that have already indicated their readiness to participate, the GM-Raba multinational enterprise will conduct a seminar in the near future.

The feasibility of Plan A is improved by the fact that it is supported by Raba, a firm that has been tried and tested on the world market and enjoys a good reputation. The same engine that will be produced in the GM-Raba plant is also being manufactured in the Austrian Aspern, not quite 100 km from Szentgotthard. This provides opportunities for offering mutual assistance. Plant components required for making and assembling engines and cars will be imported from other European GM plants.

Plan B is based on hypothesizing large-scale involvement by domestic suppliers. Thus, at first glance it appears attractive, even more attractive than Plan A. In my view, however, this hypothesis is exactly Plan B's weakest element and, as we know, the success of any complex development project is determined by its weakest link. The plan is based on the bold assumption that within 12 months after the start-up of the multinational enterprise the value of domestic supply will amount to 50 percent, in such a way that assembly will be 20 percent and the supplying of parts will represent 30 percent. According to the basic agreement, the Hungarian share could be increased to 70 percent within a few years, although engine parts and transmissions would always be supplied by the Japanese partner.

I would like to remind the readers of a statement made by Peter Havas, a former managing director of the consortium, nearly three years ago, in reference to the assembly of the Alto models: "We proposed that within five to eight years Hungarian firms would supply 75-85 percent of the required parts...." (FIGYELO 1987 No. 48) Well, the fact is that very little has happened since that time to prepare Hungarian suppliers. The cold truth is that parts and elements supplied (in varying quality) by Hungarian firms for the manufacturing of Lada cars amounts to only six-eight percent of those cars' total value.

At the Autokonszern they see the situation in a more optimistic light. They claim that Japanese experts have already visited more than 50 potential suppliers in Hungary, and they consider it possible that the projected level of Hungarian involvement can be reached.

As for me, I am less optimistic. I see no guarantee, either of a technological, financial, or management nature, that the Hungarian involvement projected in Plan B could materialize. Domestic attempts to manufacture a few, relatively simple parts (such as mufflers or horns) are no

reason to be more hopeful. In the Kopint-Daturg study, which states matters in a reserved manner, one can find this statement: "At the present level of Hungarian industry, it is difficult to imagine that domestic suppliers could satisfy the demands of several vehicle manufacturing plants simultaneously."

Let us assume that certain elements that could be produced with quite labor-intensive methods (seats, upholstery, glass, etc.) would be of an acceptable quality and would nearly reach a 30-percent share in the production of an automobile. But how do we go further? According to some of the views issued by experts, in the second stage of the project we would have to undertake investments in the amount of 8 billion forints (some of it in hard currency) in order to bring about a 20-percent increase in Hungarian participation. I wish to remind the readers that in my conversation with Peter Havas I referred to one of the statements made by Deputy Prime Minister Gyula Sos, according to which experts estimated that an investment somewhere between eight-10 and 40-50 billion forints would be called for. As the man then in charge of the consortium put it: "It is entirely impossible to rapidly create entire support industries for automobile production; thus, it is also impossible to estimate how much this endeavor would cost."

Austria, with the participation of VW, BMW, and GM, invested nearly 100 billion schillings between 1979 and 1989 in the development of their automobile manufacturing. As a result, they have reached the point where relying in part (and I emphasize "in part") on the supply input of their domestic industries, they are now able to begin producing a small, not especially demanding, passenger car.

Let us assume that there is enough money available for developing the production of auto parts in Hungary. Even if this were true, the investment project would be more than risky: It would be a shame to create a domestic parts manufacturing basis for the making of 50 thousand cars, even if this was done only to the extent of a 50-percent share, because (especially in the case of items that raise greater demands for equipment and technology) this would hardly amount to the mass production necessary to achieve economy. (In Italy, they typically make 1 million pieces of an average automobile part each year.) But, lest I be misunderstood, even if I did not take into consideration the data of 50,000 cars a year, I would still feel that a 50-percent share for domestic suppliers is autarchical (to say the least) when we take into account the size of Hungary's industry and the great capital demand of developing background industries.

Suzuki's assembly plants work with hundreds of subcontractors. It is questionable whether the Japanese firms involved would be willing to turn their technological documentation over to their Hungarian counterparts. It is a fact that thus far very little of the necessary knowledge (documentation, etc.) has been at the disposal of the potential Hungarian subcontractors. I merely note here

that BUSINESS WEEK sees a well thought out Japanese strategy in establishing assembly plants abroad with the promise that this would promote the growth of domestic parts manufacturing industries. Referring to a congressional report, the American publication states that 68 percent of the parts used by Japanese assembly plants operating in the United States still come from Japan.

In sum, creating a domestic basis for the manufacturing of parts and elements is a much greater challenge, when it comes to capital, industrial organization, and technological demands, than the assembling of automobiles itself. I agree with Peter Havas, who said that "... most of the uncertainty factors are connected not with the assembly plant, but with the sphere of subcontractors." Thus, I am less than satisfied by the passage of the basic agreement, according to which "... Suzuki and the involved Hungarian enterprises will do everything in their power ... to achieve this goal; Suzuki will do everything in its power to promote domestic manufacturing with the creation of multinational enterprises, ... and offers of technological assistance." At Autokonszern they feel that the text of the basic agreement reflects Japanese negotiating traditions, and it is practically equal to assuming responsibility. I honestly hope that they are right.

An expert looking at Japanese business policies analytically cannot fail to see Suzuki's strategy, unmatched in itself, which realized expansion without at the same time creating competition for itself.

#### Market Policies

It is undoubtedly one of the most attractive aspects of Plan A that the foreign partner contractually promises to accept the majority of engines produced by the multinational enterprise for its West European assembly plants, to use a lesser portion of the engines in the 11,000, and later 15,000, passenger cars to be manufactured in Hungary; to sell the cars not purchased in Hungary through the GM network, which represents 17.7 percent of the world market; and to take delivery of an increasing amount of parts manufactured in Hungary, not only for the use of assembly plants operating in Hungary, but also for its plants abroad. If the quality and delivery standards set by GM are met, this could create a good opportunity for reaching a level of mass production that could ensure the economical manufacture of parts and assemblies.

In other words, the advantage of Plan A is that it creates not only a producing organization, but also a marketing one. This marketing organization, in addition to its exporting activities, would import 2,000 cars annually from the whole Opel line, and would also market the vehicles assembled in Hungary. As set out by Plan A, the majority of marketing risks would be borne by GM, while the Hungarian partner would break into the markets of developed capitalist markets, benefitting from the reputation of GM.

Since GM itself will be the purchaser, or distributor, of the multinational enterprise's products, it is not likely that it will be interested in raising prices to their maximum level.

Plan B places the risks of marketing entirely or almost entirely on the Hungarian partners. I base this view on the fact that the basic agreement states that the Japanese partner will do everything in its power to aid, with advice and assistance, in the sale of cars assembled in Hungary, through its own commercial network. In other words, there is not a word about assuming responsibility, even though according to Plan B within five years there would be some 80,000 Swift cars assembled in Hungary that would have to be sold on dollar markets. Even Japanese circles admit that this is not an easy task. I must agree with the opinion of Japanese experts; after all, Suzuki was able to sell only a small number of its Swifts on the West European markets. In any event, Suzuki owns only 1.7 percent of the world passenger car market, and its European network of distributors is much more modest than that of GM Europe.

Once again, I cite Peter Havas: "Suzuki proposed to export 25,000 cars through its own distribution network; ... we proposed that calculations be made on the basis of a higher exporting level ... This recommendation appears in our proposal, but it has to be further discussed." According to all indications, Plan B is a definite step back from the position taken at the end of 1987, in that the above-mentioned assumption of responsibility for exports has remained nothing more than the Hungarian negotiators' wish. This painful fact is ameliorated only slightly by the clause according to which the Hungarian-Japanese multinational enterprise would have exclusive rights to export Swift cars and parts made in Hungary to the European market, as long as prices and quality remain competitive. Based strictly on marketing considerations, I doubt whether Hungarian firms could establish their competitiveness within three-five years. (As an aside, I would point out that GM announced that it will produce 150,000 Opel passenger cars per year in the East German town of Eisenach, and VW itself will start building a plant for assembling a large series in East Germany.)

In contrast to Plan A, Plan B does not contain any assumption of responsibility for the distribution on dollar markets of automobile parts manufactured in Hungary. The only thing Suzuki will be responsible for is to recommend Hungarian parts. (There are some claims that Suzuki made a verbal offer to export 1 billion yen worth of parts a year.) It appears that the Japanese distributing network and marketing organization would remain closed to the multinational enterprise.

To agree with the text of the Kopint-Datorg study, "... the Japanese partner must guarantee the sales of these cars," and "... must guarantee the product's quality on the West European markets."

It appears that creating West European export opportunities would remain the responsibility of Autokonszern and the Hungarian Government, at a time when Europe is not opening, but rather closing, its markets to the influx of Japanese cars. The EEC is getting ready to establish a limit on the number of Japanese cars imported: Five European countries have already set a limit of one to 11 percent. The question is whether in 1992 the EEC will consider the Swifts assembled in this country to be Japanese or Hungarian products, and whether or not its members will apply to them the measures prescribed by the general tariff preference (the GSP) or not.

Although, in view of the fact that Opels will also be assembled in Hungary, studies would still have to be conducted to determine domestic competition, the Swift would have a market if its price were to remain under the 400,000-forint level. According to some hypotheses, as many as 30,000-40,000 of them could be sold annually, especially under favorable credit conditions and longer guarantees.

#### The Balance of Hard Currency Payments

I have no way of comparing the economic feasibility of the two plans, because I lack access to the necessary data.

According to Plan A, within five years after the start-up of operations the balance of hard currency payments for the entire endeavor (including the manufacturing of engines, the assembly of passenger cars, the sale of cars in Hungary, as well as the new enterprises established in Hungary by GM and its partners) will close with a surplus for the Hungarian partner. This would be guaranteed by the contracting partners. In calculating the combined balance of hard currency payments, they considered the net hard currency earnings from GM's new Hungarian orders, as well as the 2,000 cars to be imported annually.

I repeat that I have no access to detailed calculations, so I am not in a position to evaluate Plan A's goals concerning our hard currency balance or to determine whether they are well funded or not. In fact, some people question whether this part of the plan is feasible; however, if we take into consideration that every aspect of the endeavor (including the preferences) is conditioned on how the hard currency balance is shaping up, we must assume that the participants will do everything in their power to realize the plans.

According to Plan B, achieving a balance of hard currency payments "could be a difficult task." This is another area where the basic agreement uses the ubiquitous term: "We will do everything in our power." Some Japanese and Hungarian experts claim that the hard currency balance outlined in Plan B will remain negative for Hungary for at least a decade. Other experts claim that the balance of payments will remain negative as long as the exporting of complete vehicles would not reach, within 304 years after the start-up of operations, the level

of 20,000 cars per year, with the participation of Hungarian suppliers being at least 60 percent (taking into account the work of assembly which would represent a 20-percent share).

Another quote from Peter Havas. To my question "How will this deal influence the balance of hard currency payments?" he answered: "This is a key question; ...thus far no solutions have been proposed that have been acceptable to us. We are looking for a solution in which the multinational enterprise's balance of hard currency payments will be passive only for a short time."

It seems that the Hungarian negotiating partner has become increasingly soft with the passing of the years; perhaps to the same degree as our yen debts have increased and the same degree chances have increased for gaining political advantages from the realization of Hungarian car assembly plans. Could it be that I am not far from the truth when I hypothesize that the authorities involved wanted to take a demonstrative step to gain the goodwill of our large creditors? But these are only hypotheses and questions, to which sooner or later we will receive answers.

In closing, a note of some significance: While the realization of Plan A was actively promoted by Raba's leading experts, the promoting of Plan B was attended to as early as years ago by leading personalities in the government....

[Box, p. 22]

#### Perhaps the Austrian Method...

...To manufacture two types of cars in small production series ... is absolutely irrational and uneconomical.... Perhaps the "Austrian method" is the most feasible. This calls for the making of modern materials, parts, and assembly units, in series large enough to be economical. In exchange for them, we could import enough cars from the West and the East alike to suit the prevailing demands. Even following this course, however, we would regularly encounter details behind which "the devil may be hiding," and to solve these problems we would have to invest tens of millions of dollars.

A consortium made up of Hungarian firms was already discussing the details of a deal with the Japanese firm Suzuki. I invited the leaders of the consortium to visit me. (That was when Ede Horvath, the managing director of the Raba Works, decided that his firm would leave this circle.) They readily informed us, but they announced that they did not wish to see the Ministry of Industry and the government as participants; there is already a government commissioner among them, and they consider this deal to be a mere agreement between enterprises and banks. A few days later I received the Japanese leaders of Suzuki; at that time it appeared to me that they were in no hurry to establish the multinational enterprise, because they did not wish to hear any news about it.

Source: Frigyes Berecs, *Misguided*, pages 166-167, Budapest, Magveto Publishers.

**Definition for, Status of 'Standing in Line'  
Provided**

*25000755A Budapest MAGYARORSZAG in Hungarian  
22 Jun 90 p 21*

[Article by Ivan Wiesel: "Calm Before the Storm"]

[Excerpt] "Standing in line" is a peculiar creature of financial jargon and practice. Its essence: The seller (shipper) presents his invoice to the bank with an instruction to collect the invoice value from the buyer. But the bank tells him: The buyer's account does not contain the funds [to pay the bill], therefore it will be able to credit the invoice value [to the seller's account] only when sufficient funds accumulate on the [buyer's] account. Accordingly, the shipper is forced to stand in line among other shippers who also have unsatisfied claims against the holder of the given account.

Standing in line creates forced credit, because the shipper is forced to give credit to the buyer, while somewhere else the shipper is the buyer, and therefore, due to the lack of money, he is not able to pay to his shippers. The chain is continuously increasing, and this "snowballing mechanism" is a true expression of all the weaknesses of our financial system. It beholds the severe balance problems and structural problems of our

economy. On the surface, standing in line appears to be a problem pertaining to payments among enterprises, but in reality it is one of the most characteristic expressions of the Hungarian economic crisis. This also suggests that the situation that has evolved cannot be resolved at the microsphere level; intervention at the economic policy level is needed. One such attempt was Law No. 22 of 1989—better said: It could have been such an attempt. It provides a method for the initiation of bankruptcy proceedings in the event that standing in line is prolonged or if the debtor refuses to pay. Experience shows, however, that the law did not fulfill the hopes attached to it, therefore the law is in the process of being amended.

During the past years, standing in line has grown like an avalanche: In 1987 it amounted to "only" 10 billion forints, by late 1989 it was six times that amount, and according to the latest statistical data it has reached the level of about 139 billion forints. But it is also true that the actual amount involved in standing in line amounts to about 200 billion forints, according to estimates. The substantial difference between the official amount and the estimate may be attributed to the fact that the Hungarian National Bank records only the large unpaid amounts. But since last September the commercial banks have been permitted to decline to collect unpaid bills, i.e. they do not accept invoices from shippers, nevertheless this also increases standing in line. [passage omitted]

## HUNGARY

### Refugee Affairs: Plight, Difficulties Described

90CH0205A Budapest MAGYARORSZAG  
in Hungarian 25 May 90 p 25

[Unattributed article: "Without Illusions; Refugee Affairs; East Europe's Question Marks; After the Fire"]

[Text] We wonder; if the process of perestroyka, marked with the name of Gorbachev, were to fail in the Soviet Union, would Carpatho-Ukrainian Hungarians (who just recently obtained a modicum of freedom) remain at home? If the elections in Romania were to favor the extreme elements of Romanian nationalism, would a new flood of refugees take off from the region "beyond the forest?" In the event that Yugoslavia were to fall apart, would Hungarians be allowed to remain in their homes? Will Slovakia become democratic enough to cease threatening if not the existence, at least the minority rights of the region's Hungarians, so they would not become fed up with their lot and seek a new home with their belongings on their backs? (There is only one country which does not threaten us with another wave of refugees; Austria, where the recent East European earthquake raises only the potential problem of accommodating a new influx of refugees.) It is not at all certain that the coming months will provide satisfactory answers to the above questions. It is being said that in Transylvania many Hungarians have already packed their belongings, and are only waiting to learn the outcome of the elections before deciding whether to stay or leave the land of their forefathers. And if this were to happen, the tragedy of thousands of people (who would become homeless, who would attempt to save their lives by leaving their relatives) would bring to the receiving countries, including our own, new burdens to which the supremely rational wording of public administration refers as "refugee affairs."

### A Disappointing Turn of Events

In March the Office of Refugee Affairs (created last spring under the aegis of the Ministry of Internal Affairs) sent a report to the Council of Ministers. During the revolution in Romania, the Hungarian Government did not have time to deal specifically with the refugees; its energies were directed primarily toward coordinating the aid shipments. At the time, many of us still held the illusion that in the aftermath of political changes Romania's domestic situation would normalize and such an improvement would occur in the relationship between our two countries that the compulsion to flee would in fact disappear. This is not what happened.

Between 1988 and 20 February 1990, when 35,000, mostly ethnic Hungarian, citizens of Romania arrived in our country, we all hoped that sometime in the future these refugees could return to their homes. There were in fact 3,000-4,000 individuals, most of them ethnic Romanians, who left the country, but they left for the West, instead of Romania. Only 2,000 decided to return home

permanently. As a result, this February there were still 26,500 refugees from Romania staying in our country, and since that time new ones have arrived.

The illusions for settling conditions have been further nurtured by the content of the decrees issued by the Romanian Government in January. They promised immunity to those who left their country without travel documents and declared freedom of travel; accordingly, they issued a great many travel documents to individuals who previously could not, or could only with great difficulty, obtain passports. After this, instead of the "green border," more people chose a legal way of departure, but they were still refugees. Under the principle of family reunification, another 4,000-5,000 people of the nearly 7,000 broken families arrived in our country. In addition, several arrived who have already been granted a permit to settle here by Hungarian authorities, but whose travel documents were delayed by Romanian officials. Most of these had doubts about positive developments in Romania; that is why they decided to resettle in another country. International experience shows that repatriation may take as long as two years after the transformation in Romania, primarily because of the ill-defined and uncertain conditions.

By now Hungary has more than moral impetus to welcome those who, for various reasons, are persecuted in their homes. Since signing the Geneva Convention, our country has been obliged to accept those who are persecuted or negatively discriminated against on the grounds of their political beliefs, racial origins, or religious denomination, and can document the validity of their justified fear.

### After Signing

Although certain decrees aimed at defining the status of refugees went into effect last October, and after mid-November the authorities "took advantage" of the possibilities provided in these regulations, the December revolution, in fact, provided a break in this process. Meanwhile, on 1 January, the new law concerning emigration and immigration took effect; with the result that one did not even have to be a refugee in order to be accepted as a new settler in our country. Additional laws made it much easier for foreigners to be employed in Hungary, meaning that one has to be neither a refugee nor a new settler, and can still be able to remain in our country for longer periods of time, in fact for as long as one wishes.

These laws also eased the task of officials working at the Office of Refugee Affairs, since it became significantly easier to determine who, and under what pretext, is eligible to receive assistance. In other words, the office was given an opportunity to focus its attention on the problems of those who arrived here in 1988 and 1989.

As we have learned from Istvan Markus, deputy director of the office, significant amounts have been forwarded from abroad to the account of the Settlement Fund. Finland is leading the list of donors, followed by West

Germany and Switzerland. About \$3 million have been received thus far, but, no matter how good that may sound, this amount is far from enough. "After the December events the donors became less generous; after all, they thought that the situation was solved," said Istvan Markus. However, money is still greatly needed! While in 1988 only 70 million forints had to be spent on aiding refugees, in 1989 they had to spend the available 300 million, and borrow another 200 million from next year's budget. The largest portion of help was in assistance offered in finding housing; although 1,200 families were housed in this manner. While people who come to Hungary leave behind established material existences, they come to our country with huge illusions. Still, they are willing to face the difficulties; that is how afraid they are of remaining in their home countries. "No matter how clearly stated the Hungarian Government's policy is, which calls on Transylvanians to stay home, the most credible propaganda would be one that originates from the listeners' home," adds Istvan Markus, referring to Laszlo Tokes. "And this is especially true because the tolerance level of people at home has been significantly reduced from that of previous years." And it can hardly be expected that the new Hungarian Government will easily solve the would-be settlers' problems with housing, employment, education, and health. Of the 500-million-forints in assistance scheduled for this year, 200 million was already used up last year; the remaining 300 million is not worth as much as it used to be, and more than half of that amount has already been spent during the first quarter. The deputy director of the office

says: "As there will be less money, we will have to be even more selective in offering assistance." In plan terms, this means that individuals fleeing to our country can count on even less assistance.

#### Primarily Young People

And the process of fleeing does not stop. In March and April, as a result of the pogrom in Marosvasarhely [Tirgu Mures], 5,564 people requested information of some kind at local agencies of the Office of Refugee Affairs or at its receiving stations. Of these, 1,853 initiated the processing of their cases as refugees. The majority of them are ethnic Hungarians, who are now coming, together with their families. They are primarily young people with skills, for whom it would be even more important to remain at home.

Up until now, the Office of Refugee Affairs has been forced to put out one fire after another, while it has also participated in the preparation of the most important regulations. Only now has it been able to rely on the basic principles of international law, which also means that its associates will be able to put before the new government a proposal that is necessary for the development of consistent immigration policies and legal concepts. This is one of those rare cases, however, when implementation of these policies will not depend primarily on the new Hungarian Government, but on the incalculable future which awaits the peoples of East Europe, including the Hungarians who live beyond our borders. Once again, we cannot have any illusions.